

# PUBLIC EMPLOYEES' RETIREMENT SYSTEM TEACHERS' RETIREMENT SYSTEM

COMPONENT UNIT FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 1993

Walter J. Hickel, Governor



### STATE OF ALASKA

## PUBLIC EMPLOYEES' RETIREMENT SYSTEM TEACHERS' RETIREMENT SYSTEM

### COMPONENT UNIT FINANCIAL REPORT

For the Fiscal Year Ended June 30, 1993

Walter J. Hickel, Governor

Prepared by

Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Nancy Bear Usera, Commissioner Robert F. Stalnaker, Director

Located at: 333 Willoughby Avenue State Office Building, 6th floor



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### INTRODUCTORY SECTION

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### DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

P.O. BOX 110200 JUNEAU, ALASKA 99811-0200 PHONE: (907) 465-2200 FAX: (907) 465-2496

December 16, 1993

The Honorable Walter J. Hickel Governor Office of the Governor P.O. Box 110001 Juneau, AK 99811-0001

#### Dear Governor Hickel:

It is my pleasure to submit to you the Component Unit Financial Report of the Alaska Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS).

This report shows the financial condition of both the PERS and TRS funds as of June 30, 1993. It has been prepared on the basis of standards set forth by the Governmental Accounting Standards Board and Financial Accounting Standards Board and is submitted in accordance with the requirements of Alaska Statutes 39.35.020(5) (PERS) and 14.25.030(4) (TRS).

Sincerely,

Nancy Bear Usera Commissioner

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# STATE OF ALASKA

### DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

WALTER J. HICKEL, GOVERNOR

PLEASE REPLY TO:

P.O. BOX 110203 JUNEAU, AK 99811-0203 PHONE: (907) 465-4460 FAX: (907) 465-3086

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December 16, 1993

Commissioner Nancy Bear Usera Department of Administration P. O. Box 110200 Juneau, AK 99811-0200

#### Dear Commissioner Usera:

It is my pleasure to present the Component Unit Financial Report of the Public Employees' and Teachers' Retirement Systems (Systems) for the fiscal year ended June 30, 1993. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Systems. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Systems. All disclosures necessary to enable the reader to gain an understanding of the Systems' financial activities have been included.

The Systems are considered component units of the State of Alaska for financial reporting purposes and are included in the Comprehensive Annual Financial Report of the State. Although the Systems share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the report is separated into two components, one for the Public Employees' Retirement System (PERS) and the other for the Teachers' Retirement System (TRS), with a common Introductory section. Each of these components contains a Financial section, an Actuarial section, an Investment section, a Statistical section and a Plan Summary section.

The Introductory section includes the transmittal letters, along with information about the administrative organization and consulting services utilized by the Systems. The Financial section of each component contains the independent auditors' report, the financial statements of the System and the required supplementary financial information. The Actuarial section of each component presents the results of the latest actuarial valuation. The Investment section of each component provides a review of investment activity for the fiscal year. The Statistical section of each component displays statistical tables and graphs of significant data pertaining to each System. Each component also includes a Plan Summary section for each System's plan statement.

	FY93	PERS FY92	FY91	F <b>Y9</b> 3	TRS FY92	FY91
Number of Participating Employers	152	150	145	61	62	62
Number of Active Members	30,972	30,721	29,840	9,459	9,238	8,903
Number of Retired Members	9,103	8,704	8,358	3,891	3,602	3,544
Average Annual Retirement Benefit	\$12,564	\$12,900	\$12,456	\$23,712	\$24,000	\$23,160
Average Annual Retiree Medical Premium	\$3,137	\$ 2,723	\$ 2,928	\$ 3,137	\$ 2,723	\$ 2,928

The Alaska State Legislature established the TRS, a cost sharing multiple employer defined benefit retirement system, on July 1, 1955, and the PERS, an agent multiple employer defined benefit retirement system, on January 1, 1961 to attract and retain qualified people into public service employment. The Systems currently provide service, disability, and survivor retirement benefits, as well as a health and life plan.

### **ECONOMIC CONDITION AND OUTLOOK**

Fiscal Year 1993 was a year of uneven growth. The Gross Domestic Product (GDP) grew at an average rate of 4.0% during the first half of the year. Consumer sentiment was high and spending was on an upward trend. However, the strong economic momentum did not carry through to the second half of the fiscal year. The economic engine slowed as optimism gave way to reality, and the economy only grew 1.2% during the second half of the fiscal year.

Corporate America continued its restructuring and downsizing during the year. Large scale layoffs remained the nation's most reported business news. U.S. industries remained skeptical about the strength of the recovery. Uncertainties about the new economic policies and health care proposals also discouraged the private sector from hiring additional workers.

Inflation appeared to be under control during the last twelve months. The weak job market put a damper on wage and salary growth while corporations continued their attempt to control healthcare costs. Other inflation indicators also painted a benign inflation picture. The Consumer Price Index (CPI) had an average rate of 3.0% for the fiscal year. The Journal of Commerce (JOC) Commodity Index closed out the year at 95.5, down from the year's beginning level of 99. In addition, Alaska North Slope Crude Oil, West Coast prices finished the fiscal year at \$16.02 per barrel for the month of June 1993, down from the year ago level of \$20.20 for the month of June 1992. The oil market has continued to deteriorate with daily spot prices of approximately \$10.87 in early December 1993. The oil price weakness could have a negative impact on State operations in FY 94.

Oil related income constitutes 85% of the State's income. The firmness of the oil price ensures a stable Alaska economy. During the year, Alaska's real estate market improved. The southeast Alaska real estate market continued a strong comeback, while the markets in Anchorage and Fairbanks also improved at slower paces.

Several issues could strongly influence the future state of the economy and the capital markets. The Clinton Administration hopes that health care reform will eventually lower labor costs and improve the competitiveness of U.S. industries. If the North America Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT) are adopted, they are expected to eliminate many trade restrictions and lower tariffs and should lead to the growth of global economy and the continued trend of low inflation. The Federal Reserve monetary policy, which was neutral the last part of the year and helped short-term interest rates remain at record low levels, will be monitored for its affect on the cost of capital for U.S. industries, the shape of the yield curve, and the valuation level of the stock market.

#### **MAJOR INITIATIVES**

Progress continues on the purchase and implementation of the Systems' new Combined Retirement System (CRS) computer system. The requirements analysis is nearly complete, with a projected finish date of mid-December. At that time the project contractor, the Retirement Concepts Group, Ltd. of Colorado Springs, will begin revising their base system to meet our specific needs. An IBM AS400 computer has been purchased, installed and is already operational. The targeted completion date of the project is mid-1995.

Approximately 9,000 retirees of the Systems received an automatic Post Retirement Pension Adjustment (PRPA) effective July 1, 1992 due to the Increase in the Anchorage consumer price index (CPI) of 3,6% during 1991.

New procedures were implemented by January 1, 1993 to bring the Systems into compliance with the federal Unemployment Compensation Amendments Act of 1992. This involved a mandatory 20% federal tax withholding on the taxable portion of eligible rollover distributions not directly transferred to another eligible plan. The Systems were also required to accompdate members who wished to directly transfer their refunds to other qualified plans.

Electronic fund transfers of retiree benefits through the Automated Clearing House (ACH) network directly to retiree bank accounts was implemented this year. Several thousand retirees opted to use this program when it began.

As a part of a statewide analysis, a preliminary study was undertaken to examine the feasibility of replacing the current microfiche recordkeeping system with a computer imaging system. The results were very favorable and a more detailed analysis is planned for FY95.

Legislation passed in 1992 created the Alaska State Pension Investment Board. The Board met for the first time in February, 1993 and assumed fiduciary responsibility of the Systems on July 1, 1993.

#### FINANCIAL INFORMATION

### **Accounting System and Reports**

This report has been prepared in accordance with the principles of governmental accounting and reporting as pronounced by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Financial Statements are presented in accordance with Financial Accounting Standards Board (FASB) Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans. The Notes to Financial Statements are presented in accordance with GASB Statement No. 5, Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers.

The accrual basis of accounting is used in recording financial transactions. Revenues are recognized in the accounting period in which they are earned and become measurable without regard to the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Contributions to the Systems are based on the principles of level cost funding with current service financed on a current basis and prior service amortized over a twenty five year period.

Management of the Systems is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Systems are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

#### **Assets**

At June 30, 1993, the market value of PERS net assets totalled \$4,007,907,000 and those of TRS totalled \$2,306,503,000. This was an increase of 16.0% for PERS and 13.5% for TRS over the prior year.

#### Revenues

Funding for the Systems' benefits is provided through the collection of employee and employer contributions and through income on investments. The revenue sources for the years ended June 30, 1993 and 1992 are shown as follows:

		P lons) 1992	ERS Inc/( Amt	Dec) %	(Mill) 1993	Ti ons) 1992	The Carlotte Constitution	(Dec) %
Employee Contributions Employer Contributions	\$ 81.9 141.3	77.7 149.2	4.2 (7.9)	5.4% (5.3)	\$ 46.5 58.1	44.3 57.1	2.2 1.0	5.0% 1.8
Investment and Other Income	<u>493.3</u>	<u>361.1</u>	132.2	36.6	283.6	212.9	<u>70.7</u>	<u>33.2</u>
Total Revenues	<u>\$716.5</u>	<u>588.0</u>	128,5	<u>21.9</u> %	<u>\$388.2</u>	314.3	<u>73.9</u>	<u>23.5</u> %

#### Expenses

The primary expense of a retirement system is the payment of benefits. These recurring benefit payments, along with refunds of contributions to terminated employees and the cost of administering the Systems comprise the total expenses of the Systems. The expenses for the years 1993 and 1992 are reflected below:

Refunds Administration Total Expenses	11.5 9.3 \$162.7	11.9 <u>8.0</u> 151.4	(.4) 1.3 11.3	16.3 7.5%	6.4 \$113.7	5.6 107.0	<u>.8</u> 6.7	14.3 6.3%
Benefits	\$141.9	131.5	10.4	7.9% (3.4)	\$104.8 2.5	98.8 2.6	6.0 (.1)	6.1% (3.9)
	(Mill) 1993	\$559459999	RS Inc/( Amt	Dec) %	(MIII) 1993	ТГ опs) 1992	Inc/(	Dec) %

#### **Funding**

The bottom line for a retirement system is its level of funding. The higher the level of funding, the larger the ratio of assets accumulated and the more assets are available for investment purposes. Also, a high level of funding gives the members a greater degree of assurance that pension benefits are secure.

A method of measuring the level of funding is the funding ratio. This is calculated by dividing the valuation assets by the accrued liabilities or "pension benefit obligation." The pension benefit obligation (PBO) is a standardized disclosure measure of the present value of pension benefits. This measure is the actuarial present value of credited, projected benefits estimated to be payable in the future to current retirees and beneficiaries and to current employees.

The funding ratios as of June 30, 1992, the date of the latest actuarial valuations, were 91.2% for PERS and 89.7% for TRS. These are considered to be very good funding levels. This is especially true since medical premiums are included in the accrued liabilities, which is unusual for a state retirement system.

Although the historical level of funding for the Systems is good, constant effort will continue to be directed at improving funding levels, in order to maintain financially sound retirement systems.

#### **Investments**

The total market value of the Systems' assets reached \$6.4 billion at the end of the fiscal year. At year end, the asset allocation was 39% in domestic equity, 7.5% in international equity, 50.5% in fixed income, and 3% in real estate.

The Systems returned an average rate of 14.2% during the fiscal year. This was in excess of the average actuarial rate of 8.875%.

The Systems adopted an Asset Allocation Plan at the beginning of the fiscal year. The aim of this plan is to ensure the assets earn a reasonable return within the acceptable risk level over a long period of time. The adoption of the asset allocation plan called for equity style diversification.

During the year, various large capitalization value, small capitalization value and growth, and global equity managers were hired. The fixed income portfolio is managed by internal managers.

#### PROFESSIONAL SERVICES

Professional consultants are hired to perform services essential to the efficient operation of the Systems. Actuarial services are provided by William M. Mercer, Incorporated. The annual financial audit of the Systems was conducted by the accounting firm of KPMG Peat Marwick. The Systems' investment function is managed through the Alaska State Pension Investment Board. Legal services are provided by the Alaska Department of Law.

#### ACKNOWLEDGEMENTS

The compilation of this report reflects the combined effort of the Systems' staff. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and their employers.

The report is being mailed to all employer members of the Systems. They form the link between the Systems and the membership. Their cooperation contributes significantly to the success of the Systems. Hopefully, the employers and their employees will find this report both informative and helpful.

I would like to take this opportunity to express my gratitude to you, the Boards, the staff and to the many people who have worked so diligently to assure the successful operation of the Systems.

Respectfully submitted,

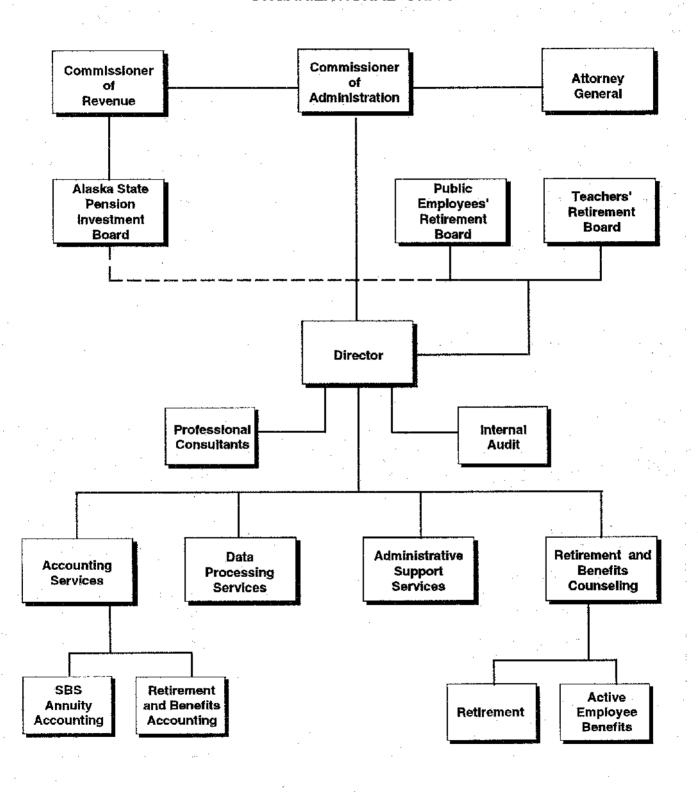
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Robert F. Stalnaker

Director

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### **ORGANIZATIONAL CHART**



### ADMINISTRATIVE STAFF

#### Director

Robert F. Stalnaker

**Data Processing Services Manager** 

William "Chuck" Greeson

Retirement and Benefits Counseling Manager

Janet Parker

**Accounting Services Manager** 

Anselm Staack

Retirement Supervisor Willard "Bill" Church

Retirement and Benefits Accounting Supervisor

Jerome J. Walkush

Active Employee Benefits Supervisor

Lisa Tourtellot

SBS Annuity Accounting Supervisor

David Duntley

Administrative Support Services Manager
David Thomson

Internal Auditor

Katherine "Kay" Gouyton

### PROFESSIONAL CONSULTANTS

**Actuary Consultant** 

William M. Mercer, Incorporated Seattle, Washington

Independent Auditors

KPMG Peat Marwick Anchorage, Alaska

Benefits Consultant

The Wyatt Company Seattle, Washington

Insurance Carrier

Aetna Life Insurance Company Seattle, Washington Legal Counsel

John Gaugine Assistant Attorney General Juneau, Alaska

Legal Counsel - Retirement Boards

Robert Johnson Attorney Juneau, Alaska

Consulting Physician

Mike Franklin, M.D. Juneau, Alaska



# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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### PUBLIC EMPLOYEES' RETIREMENT BOARD



James "Pat" Wellington, Chair Term Expires: 4/5/96



Judge Seaborn J. Buckalew, Vice Chair Term Expires: 6/20/96



David Call
Term Expires: 6/20/94



Gary P. Bader Term Expires: 6/20/98

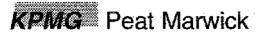


Mary A. Notar Term Expires: 4/5/96

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FINANCIAL SECTION

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**Certifled Public Accountants** 

601 West Fifth Avenue Suite 700 Anchorage, AK 99501-2258

### **Independent Auditors' Report**

Division of Retirement and Benefits and Members of the Alaska Public Employees' Retirement Board State of Alaska Public Employees' Retirement System:

We have audited the accompanying statements of net assets available for plan benefits of the State of Alaska Public Employees' Retirement System (Plan) as of June 30, 1993 and 1992, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Public Employees' Retirement System as of June 30, 1993 and 1992, and the changes in net assets available for plan benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 15, 1993

KPM6 Rear Marwick



Member Firm of Klynveld Peat Marwick Goerdeler

# Statements of Net Assets Available for Plan Benefits (000s omitted)

June 30, 1993 and 1992

	1993	1992
Assets:	:	· ·
Investments, at market value:	•.	
United States Government debt	\$ 1,003,965	804,158
Federal agency debt	61,275	57,766
Mortgage backed federal securities	· -	5,848
Corporate bonds, notes and debentures	840,910	852,468
Commercial paper	99,859	
Domestic equity pool	1,540,814	1,296,970
International equity pool	288,175	187,632
Real estate equities	113,438	<u>118,049</u>
Total investments	3,948,436	3,322,891
Loans and mortgages, at market value, net of allowance		
for loan losses of \$2,387 in 1993 and \$14,590 in 1992	8,368	76,236
101 10411 100000 01 423001 11 1222 11 11 12 13 13 13 13 13 13 13 13 13 13 13 13 13		
Receivables:		
Contributions	12,459	13,113
Retirement incentive program	2,399	6,286
Accrued interest and dividends	36,415	34,684
Total receivables	51,273	54,083
TOTAL TECETADIES		
Cook and each equivalente	5,694	10,248
Cash and cash equivalents  Total assets	4,013,771	3,463,458
rotarassets	4,0 (0,1) 1	<u> </u>
Liabilities:		
Accrued expenses	3,061	2,730
Due to General Fund	2,471	6,624
Commerce settlement liability	332	
Total liabilities	5.864	9,354
t Otal habitities		
Net assets available for plan benefits	\$ 4,007,907	3,454,104
1404 moods cramable for blant southing		

See accompanying notes to financial statements.

# Statements of Changes in Net Assets Available for Plan Benefits (000s omitted)

Years ended June 30, 1993 and 1992

	1993	1992
Additions:		
Investment income:		
Net unrealized appreciation in market value	\$ 89.539	00 100
of investments Interest	\$ 89,539 145,630	88,189 138,538
Dividends	50,986	47,477
Net realized gains on sales	201,206	96,658
Total investment income before provision	201,200	56,036
for losses on loans and mortgages	487,361	370,862
Provision for losses on loans and mortgages	<u>5.918</u>	<u>(9,739)</u>
Net investment income	493,279	<u>361,123</u>
Contributions:		
Employers	141,385	147,961
Employees	81,889	77,602
Retirement incentive program:	,	
Employers	. (17)	1,231
Employees	<u></u>	<u>72</u>
Total contributions	223,257	226,866
Other	6	
Total additions	716,542	587,989
Deductions:		
Benefits paid:		
Retirement	114,060	108,360
Medical	27,879	23,120
Total benefits paid	141,939	131,480
Refunds to terminated employees	11,522	11,901
Administrative expenses	9,278	8,045
Total deductions	162,739	151,426
Net increase	553,803	436,563
Net assets available for plan benefits at beginning of year	3,454,104	<u>3,017,541</u>
Net assets available for plan benefits at end of year	\$4,007,907	3,454,104

See accompanying notes to financial statements.

### Notes to Financial Statements (000s omitted)

June 30, 1993 and 1992

### (1) Description

The following brief description of the State of Alaska Public Employees' Retirement System (Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

#### General

The Plan is the administrator of a defined benefit. agent, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible State employees and employees of its local governments. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. In determining the status of the Plan as a component unit of the State, the following elements were considered: financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

At June 30, 1993, the number of participating local government employers was:

Municipalities School districts Other	77 52 <u>23</u>	
Total employers	152	

Inclusion in the Plan is a condition of employment for eligible State employees except, as otherwise provided, for judges and elected officers. Any local government in the State may elect to have its permanent general and police and fire department employees covered by the Plan. At June 30, 1992, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	11.953
Current employees: General Police and fire	28,206 2,515 30,721
	42,674
Current employees: Vested:	
General	14,640
Police and fire Nonvested:	1,842
General	13,566
Police and fire	673
	30,721

## Notes to Financial Statements (000s omitted)

#### **Pension Benefits**

Employees hired prior to July 1, 1986 with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Employees with thirty or more years of credited service (twenty years for peace officers and firemen) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. The average monthly compensation is based upon the employee's three highest, consecutive years salaries.

The benefit related to all years of service earned prior to July 1, 1986 and for years of service through a total of ten years for general employees is equal to 2% of the employee's average monthly compensation for each year of service. The benefit for over ten years of service subsequent to June 30, 1986 is equal to 2-1/4% of the employee's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For police and fire employees, the benefit for years of service through a total of ten years is equal to 2% of the employee's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service.

Married employees must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1986 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1986 may receive major medical benefits prior to age sixty-five by paying premiums.

#### **Death Benefits**

If an active employee dies from occupational or nonoccupational causes, the spouse may receive a monthly pension equal to 40% of the When death is due to employee's salary. occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive the monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average monthly compensation at the time of death and the credited service, including service that would have accrued if the employee had lived and continued to work until normal retirement.

### Notes to Financial Statements (000s omitted)

### **Disability Benefits**

Active employees who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirementage. Although there is no minimum service requirements for employees to be eligible for occupational disability, employees must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefits equal to 40% of the employee's salary at the time of the disability. The nonoccupational disability benefit is based on the employee's service and salary at the time of disability. At normal retirement age the disabled employees begin receiving normal retirement benefits.

### **Effect of Plan Termination**

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participant benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

### (2) Summary of Significant Accounting Policies

#### **Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting.

#### Valuation of Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments, other than real estate equities and loans and mortgages, are carried at market value to reflect their asset values. Market value is determined at the end of each month by the custodial agent. The agent's determination of market values involves, among other things, using pricing services or prices quoted by independent brokers.

Real estate equities are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

At June 30, 1993, loans and mortgages are stated at estimated market value as determined by management.

Historically, management of the loans and mortgages portfolio has provided an estimated allowance for loan losses to provide for potential credit losses. Factors considered by management in developing the allowance for loan losses include definquency levels, historical charge-offs and the aging of the portfolio.

### Notes to Financial Statements (000s omitted)

Loans and mortgages include approximately \$4,348 and \$12,150 for 1993 and 1992, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to reself.

During fiscal year 1993, mortgage loans with a principal balance of \$56,636 were sold through a competitive sale. Proceeds from the sale were \$55,007, resulting in a decrease in the previously recognized allowance for loan losses of \$1,619.

#### **Contributions Receivable**

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

### (3) Investments

To provide an Indication of the level of credit risk assumed by the Plan at June 30, 1993, the

Plan's deposits and investments are categorized as follows:

### Deposits

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

#### Investments

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

### Notes to Financial Statements (000s omitted)

Category 3 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the State's name:

		<b>.</b>	value and carrying
	1	<u>tegory</u> 2 3	
Deposits - cash	\$ 5,694	•	- 5,694
Investments:	φ 0,55-1		
United States Government debt	1,003,965	••• .	- 1,003,965
Federal agency debt	61,275	-	- 61,275
Corporate bonds, notes and		•	
debentures	840,910		- 840,910
Commercial paper	99,859	<b></b>	- 99,859
Domestic equity pool	1,540,814	•	- 1,540,814
International equity pool	288,175	· • · ·	- 288,175
Real estate equities	113,438		<u> </u>
	\$3,954,130	<del>"</del> "	3,954,130
			·

During 1993 and 1992, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	1993	1992
United States Government debt Federal agency debt Mortgage backed federal securities Corporate bonds Commercial paper Domestic equity pool International equity pool Real estate equities Loans and mortgages	\$ 65,550 3,262 (87) 42,787 (27) (14,540) 8,745 (7,490) (2,743)	21,819 1,130 87 40,248 - 33,673 4,592 (22,022) (1,077)
Loans and mongages	\$ 95,457	78,450

## Notes to Financial Statements (000s omitted)

The cost, market and carrying values of the Plan's investments at June 30, 1993 and 1992 are as follows:

	Cost	Market	Carrying value
1993:	•		
United States Government debt	\$ 850,199	1,003,965	1,003,965
Federal agency debt	56,342	61,275	61,275
Corporate bonds, notes and debenture		840,910	840,910
Commercial paper	99,887	99,859	99,859
Domestic equity pool	1,384,059	1,540,814	1,540,814
International equity pool	283,239	288,175	288,175
Real estate equities	155,164	113,438	113,438
Loans and mortgages, net of allowand		•	
for loan losses of \$2,387	8, <u>368</u>	8,368	<u>8,368</u>
	•		
	\$ 3,586,650	3,956,804	3,956,804
1992:	•		
United States Government debt	\$ 715,943	804,158	804,158
Federal agency debt	56,636	57,766	57,766
Mortgage backed federal securities	5,762	5,848	5,848
Corporate bonds, notes and debenture		852,468	852,468
Domestic equity pool	1,125,674	1,296,970	1,296,970
International equity pool	191,441	187,632	187,632
Real estate equities	152,285	118,049	118,049
Loans and mortgages, net of allowand	e		
for loan losses of \$14,590	67,575	<u>76,236</u>	<u>76,236</u>
	\$3,119,052	3,399,127	3,399,127

### Notes to Financial Statements (000s omitted)

The Commissioner of Revenue has the statutory authority to invest the monies of the Plan. This authority is delegated to investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages: certificates of deposit and banker's acceptances. Effective July 1, 1993, the Alaska State Pension Investment Board assumed statutory oversight of the Plan's investments.

#### (4) Pooled Investment

#### **Domestic Equity Pool**

The investment activity of all domestic marketable securities was consolidated with the domestic marketable securities of other State funds to form a domestic equity pool. The activity and the June 30, 1993 and 1992 balances of this domestic equity pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains and losses are allocated monthly to each participant on a pro rata ownership basis. All income earned is included in dividend

income. At June 30, 1993 and 1992, the Plan's investment in the domestic equity pool is comprised of the following:

	1993	1992
Marketable securiti at market Interest and divider	\$ 1,442,896	1,204,110
receivable	5,297	3,037
Cash and cash equivalents	92,621	89,823
	\$ 1,540,814 ————	1,296,970

### International Equity Pool

The Plan, along with the Teachers' Retirement System, has formed an international equity pool comprised of investments in various types of international equity securities. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and losses, and income received are allocated monthly to the two participating funds on a pro rata ownership basis.

### Notes to Financial Statements (000s omitted)

The international equity pool at June 30, 1993 and 1992 is comprised of the following:

	1993	1992
Marketable securiti at market	es, \$ 226,374	171,817
Cash and cash equivalents	<u>61,801</u>	15,815
	\$ 288,175	187,632

#### **Short-Term Investment Pool**

The Plan, along with three other State retirement systems, participates in a short-term investment pool formed during 1993. Each participant owns shares in the short-term investment pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term investment pool, comprised of repurchase agreements and cash, are included in cash and cash equivalents. Because the short-term investment pool consists of overnight investments, market value equals cost; therefore, there are no gains and losses and all investment income is from interest. Interest accruals are based on the Plan's pro rata share of the short-term investment pool and are credited to the Plan daily, thereby compounding daily.

At June 30, 1993, the Plan's investment in the short-term investment pool is comprised of the following:

Repurchase agreement	\$ 5,443
Cash	16
	\$ 5,459

Cash and cash equivalents at June 30, 1993 and 1992 are comprised of the following:

		1993	1992
Interest-bearing		,	
deposits	\$	<b>-</b> .	8,254
Short-term	٠.	•	
investment pool		5,459	-
Unsettled investment			
transactions		235	1,994
•	ı		
	\$	5,694	10,248
	_		* .

## Notes to Financial Statements (000s omitted)

### (5) Funding Status and Progress

The amount shown below as "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 7 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is the amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1992 are as follows:

- Actuarial cost method projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.
- Mortality basis 1984 Unisex Pension Mortality Table set forward one year for male and police/fire members, and set backward four years for females.

- Retirement age retirement rates based on the 1986-1990 actual experience.
- d. Discount rate 8.75% per annum, compounded annually, net of investment expenses.
- e. Health cost inflation:

Per annum
11.5
10.5
9.5
8.5
7.5

- f. Salary scale increase of 6.5% for the first five years of employment and 5.5% per year thereafter.
- g. Cost of living allowance (domicile in Alaska)
   71% of those receiving benefits will be eligible to receive the cost of living allowance.
- h. Contribution refunds 100% of those employees terminating after age thirty-five with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
- i. Asset valuation five-year average ratio of actuarial and amortized cost values of the Plan assets. Prior to June 30, 1992, the actuarial value of the assets equaled the market value of the Plan's assets, except that fixed income investments were carried

# Notes to Financial Statements (000s omitted)

at amortized cost value. Effective June 30, 1992, the actuarial value of assets equals market value as reported. Valuation assets cannot be outside of the range of amortized cost and actuarial values.

Turnover and disability assumptions are based upon the 1986-1990 actual experence of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

At June 30, 1992, the unfunded pension benefit obligation was \$287, as follows:

\$ 3.454
1,782
-
485
1,343
131
<u>3,741</u>
\$ 287

Due to a change in the asset valuation method, the unfunded pension benefit obligation at June 30, 1992 decreased \$103.8.

## (6) Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated Plan benefits was determined by William M. Mercer, Incorporated using the unit credit cost method and the following assumptions:

- a. Future salary was not considered.
- Future service was considered only to the extent that it would permit active Plan participants to become eligible for benefits attributable to service rendered prior to the date of determination.
- c. Assumptions used for mortality, withdrawal, retirement ages, disability and investment return are described in note 5 to these financial statements.

At June 30, 1992, the actuarial present value of accumulated Plan benefits was \$3,124 as follows:

Retired participants and beneficiaries of	
deceased participants	\$1,424
Terminated participants	
with deferred benefits	359
Active participants - vested	1,178
Active participants - nonvested	163
Actuarial present value	
of accumulated	
Plan benefits as of	
June 30, 1992	\$3,124

(Continued)

# Notes to Financial Statements (000s omitted)

The change in the actuarial present value of accumulated Plan benefits at June 30, 1992 follows:

Actuarial present value of accumulated Plan benefits as of June 30, 1991	\$ 2,785
Increase (decrease) attributable to:	245
Additional benefits accumulated, including actuarial experience Change due to decrease in the discount period	237
Benefits paid to participants	(143)
Actuarial present value of accumulated	0.0404
Plan benefits as of June 30, 1992	\$ 3,124

## (7) Contributions

# **Employee Contributions**

Prior to January 1, 1987, employees contributed 4.25% of their compensation, except for peace officers and firemen, who contributed 5% of their compensation to the Plan. Effective January 1, 1987, contribution rates increased to 7.5% for peace officers and firemen and 6.75% for other employees, as required by statute. The employee contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Employee contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

## Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percent-

ages of payroll and are determined using the projected unit credit actuarial funding method. The Plan also uses the level percentage of payroll method to amortize the unfunded liability over a twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following:

	1993	1992
Employer Employee	\$ 141,385 81.889	\$ 147,961 <u>77,602</u>
	\$ 223,274	\$ 225,563
Normal cost Amortization of unfunded actuarial accrued	210,943	190,617
liability	12,331	34,946
	\$ 223,274	<u>\$ 225,563</u>

(Continued)

# Notes to Financial Statements (000s omitted)

Actuarial valuations for 1993 and 1992 were performed as of June 30, 1992 and 1991, respectively.

Significant actuarial assumptions used to compute contribution requirements are as of June 30, 1990. Several actuarial assumptions at June 30, 1990 are different from those used to compute the standardized measure of the pension benefit obligation discussed in note 5. For an explanation of the changes in actuarial assumptions between June 30, 1990 and June 30, 1992, see the notes to required supplementary information.

## (8) Retirement Incentive Program

Legislation was passed in June 1989 and amended effective April 1, 1990, establishing a retirement incentive program. The program was available to state employees from October 1, 1989 through March 31, 1990, University of Alaska employees from July 1, 1989 through December 31, 1989, and all other employees from October 1, 1989 through March 31, 1991.

The retirement incentive program receivables represent the reimbursement due from employers participating in the program and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired. The amount of reimbursement is the actuarial equivalent of the difference between the benefits

the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan for the following percentage of their annual compensation for the calendar year in which the employee terminated employment to participate in the program:

the state of the s	
Police and fire members	22.50%
Other members	20.25
No. of the contract of the con	

Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

The effect of the 1989 program on the pension benefit obligation was fully accounted for in the June 30, 1990 and 1991 actuarial valuations as the eligible employees retired.

# (9) Historical Trend Information

Historical trend information for 1985 through 1992 designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type. Information prior to 1985 is unavailable.

Unfunded

# STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

# Required Supplementary Information Analysis of Funding Progress (000s omitted)

				Unfunded (assets in	Annual	(assets in excess of) pension benefit obligation as a
Year ended June 30	Net assets available for Plan benefits	Pension benefit obligation	Percen- tage funded	excess of) pension benefit obligation	covered payrol! (unaudited)	percentage of covered payroll
1985	\$ 1,295,536	\$ 1,446,672	89.6%	\$ 151,136	\$ 830,579	18.2%
1986	1,739,843	1,556,610	111.8	(183,233)	890,092	(20.6)
1987	2,010,196	1,905,005	105.5	(105,191)	891,302	(11.8)
1988	2,123,695	2,246,585	94.5	122,888	908,363	13.5
1989	2,452,962	2,563,268	95.7	110,306	912,834	12.1
1990	2,746,555	2,753,518	99.7	6,963	952,070	.7
1991	3,017,541	3,339,145	90.4	321,604	1,027,807	31.3
1992	3,454,104	3,740,882	92.3	286,778	1,083,816	26.5

Analysis of the dollar amounts of net assets available for Plan benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for Plan benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the

stronger the Plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

# Required Supplementary Information Revenues by Source and Expenses by Type (000s omitted)

## Revenues by source

Year ended June 30	Employee contributions	State of Alaska and other employer contributions	Interest, dividends and net unrealized gains on sales	Unrealized appreciation (depreciation) in market value including provision for losses and other	Total
1984	\$ 36,765	\$ 114,245	\$ 101,371	\$ (74,541)	\$ 177,840
1985	39,577	123,466	112,261	117,733	393,037
1986	42,626	127,727	182,140	159,873	512,366
1987	51,879	103,719	225,792	(27,799)	353,591
1988	66,732	108,767	154,468	(112,755)	217,212
1989	65,104	78,932	194,653	108,088	446,777
1990	69,720	96,418	233,790	17,469	417,397
1991	76,486	132,402	202,888	(823)	410,953
1992	77,674	149,192	282,673	78,450	587,989
1993	81,889	141,368	397,822	95,463	716,542
			<del></del>		

# Expense by type

	Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	Total
1984	\$ 33,060	\$ 6,939	\$ 8,923	\$ 1,776	\$ 50,698
1985	39,487	9,350	9,553	3,813	62,203
1986	45,916	9,411	9, <b>16</b> 5	3,567	68,059
1987	57,473	10,256	10,524	4,985	83,238
1988	73,964	11,376	11,409	6,964	103,713
1989	82,389	18,065	11,188	5,868	117,510
1990	85,301	22,142	11,237	5,124	123,804
1991	99.651	23,332	11,965	5,019	139,967
1992	108,360	23,120	11,901	8,045	151,426
1993	114,060	27,879	11,522	9,278	162,739

Contributions, including contributions for the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

# Cash Receipts and Disbursements (000s omitted)

# Years ended June 30, 1993 and 1992

Cash and cash equivalents at beginning of year         \$ 10.248         28.148           Add cash receipts:         Contributions:           Employers         142,154         147,094           Employee         81,774         77,668           Retirement incentive program:         Employee         2         72           Investment income         387,386         281,204           Other receipts         58,009           Total cash receipts         615,184         523,995           Less cash disbursements:         Investments purchased         453,177         388,197           Benefit payments         141,939         131,480           Refunds         11,191         14,173           Administrative expenses         9,278         8,045           Other         Total cash disbursements         619,738         541,895           Cash and cash equivalents at end of year         \$ 5,694         10,248				1993	1992
Contributions:       Employers       142,154       147,094         Employee       81,774       77,668         Retirement incentive program:       Employers       3,870       9,948         Employee       - 72         Investment income       387,386       281,204         Other receipts       - 8,009         Total cash receipts       615,184       523,995         Less cash disbursements:       11,184       523,995         Less cash disbursements:       453,177       388,197         Benefit payments       141,939       131,480         Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153          Total cash disbursements       619,738       541,895	Cash and cash equivalents at be	ginning of year		\$ 10,248	28,148
Contributions:       Employers       142,154       147,094         Employee       81,774       77,668         Retirement incentive program:       Employers       3,870       9,948         Employee       - 72         Investment income       387,386       281,204         Other receipts       - 8,009         Total cash receipts       615,184       523,995         Less cash disbursements:       11,184       523,995         Less cash disbursements:       453,177       388,197         Benefit payments       141,939       131,480         Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153          Total cash disbursements       619,738       541,895	Add cash receipts:	• • • • • • • • • • • • • • • • • • • •			
Employee       81,774       77,668         Retirement incentive program:       3,870       9,948         Employee       - 72         Investment income       387,386       281,204         Other receipts       - 8,009         Total cash receipts       615,184       523,995         Less cash disbursements:       - 8,009         Investments purchased       453,177       388,197         Benefit payments       141,939       131,480         Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153       -         Total cash disbursements       619,738       541,895	· · · · · · · · · · · · · · · · · · ·	# V. ''		•	2 % (1)
Employee       81,774       77,668         Retirement incentive program:       3,870       9,948         Employee       - 72         Investment income       387,386       281,204         Other receipts       - 8,009         Total cash receipts       615,184       523,995         Less cash disbursements:       10,184       523,995         Less cash disbursements:       141,939       131,480         Benefit payments       141,939       131,480         Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153       -         Total cash disbursements       619,738       541,895	Employers			142,154	147,094
Retirement incentive program:   Employers   3,870   9,948     Employee   - 72     Investment income   387,386   281,204     Other receipts   - 8,009     Total cash receipts   615,184   523,995      Less cash disbursements:			•	81,774	77,668
Employers       3,870       9,948         Employee       - 72         Investment income       387,386       281,204         Other receipts       - 8,009         Total cash receipts       615,184       523,995         Less cash disbursements:       10,184       523,995         Less cash disbursements:       141,939       131,480         Benefit payments       141,939       131,480         Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153       -         Total cash disbursements       619,738       541,895	• •	ogram:	4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4		
Employee   72		•		3,870	9,948
Investment income				. •	72
Other receipts         -         8,009           Total cash receipts         615,184         523,995           Less cash disbursements:         100,000         100,000           Investments purchased         453,177         388,197           Benefit payments         141,939         131,480           Refunds         11,191         14,173           Administrative expenses         9,278         8,045           Other         4,153         -           Total cash disbursements         619,738         541,895		•		387,386	281,204
Total cash receipts         615,184         523,995           Less cash disbursements:         453,177         388,197           Investments purchased         453,177         388,197           Benefit payments         141,939         131,480           Refunds         11,191         14,173           Administrative expenses         9,278         8,045           Other         4,153	·				8,009
Less cash disbursements:       453,177       388,197         Investments purchased       453,177       388,197         Benefit payments       141,939       131,480         Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153          Total cash disbursements       619,738       541,895			7		
Investments purchased       453,177       388,197         Benefit payments       141,939       131,480         Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153	Total cash rece	eipts		<u>615,184</u>	<u>523,995</u>
Investments purchased       453,177       388,197         Benefit payments       141,939       131,480         Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153					
Benefit payments       141,939       131,480         Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153			•	·	·- <del>-</del>
Refunds       11,191       14,173         Administrative expenses       9,278       8,045         Other       4,153       -         Total cash disbursements       619,738       541,895	Investments purchased				-
Administrative expenses 9,278 8,045 Other 9,278 4,153  Total cash disbursements 619,738 541,895	Benefit payments			,	-
Other 4.153 — Total cash disbursements 619,738 541,895	Refunds			•	•
Total cash disbursements 619,738 541,895	Administrative expenses	. • • •		•	8,045
	Other			<u>4,153</u>	<del></del> _
Cash and cash equivalents at end of year \$ 5,694 10,248	Total cash disb	ursements		619,738	<u>541,895</u>
	Cash and cash equivalents at er	nd of year		\$ 5,694	10,248

# Administrative Expenses (000s omitted)

# Years ended June 30, 1993 and 1992

	1993	1992
Personal services:		
Wages	\$ 853	883
Benefits	482	492
Other	2	33
Total personal services	1.337	1,408
Travel:		
Transportation	35	31
Per diem	22	23
Moving		1
Total travel	<u> 57</u>	<u>55</u>
	No.	**
Contractual services:		
Actuarial and benefits consulting	193	200
Data processing	186	142
Communications	124	92
Legal	. 80	62
Advertising and printing	. 70	32
Other professional services	60	42
Medical specialists	. 46	20
Repairs and maintenance	14	8.
Auditing	14	12
Rentals/leases	. 6	2
Transportation	2	1
Architectural	-	2
Other services	<u> </u>	6
Total contractual services	<u>805</u>	<u>621</u>
Machinery and equipment	59	13
Supplies	24	22
Investment expense	<u>6,996</u>	5,926
Total administrative expenses	\$ 9,278	8,045

# **Notes to Required Supplementary Information**

Years ended June 30, 1993, 1992, 1991, 1990, 1989, 1988, 1987, 1986, 1985 and 1984

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

The Plan's actuarial funding method for the years ended June 30, 1979 through June 30, 1984 was attained age normal. Effective July 1, 1984, the Plan adopted the projected unit credit actuarial funding method.

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

Effective July 1, 1990, the health care cost was changed from a flat 9% to the following graduations:

Year	Per annum
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

Turnover, retirement and disability assumptions were revised based on actual experience in 1986 through 1990. The assumed rate of interest was lowered to 8.75%. The mortality tables were set forward one year for male members and set backward four years for female members; previously the mortality table had been set back one and one half years for all members. The cost of living allowance was increased from 69% to 71% participation.

Effective June 30, 1992, the actuarial value of all assets equals the full market value; previously, fixed income investments were carried at amortized cost.

# **ACTUARIAL SECTION**

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# WILLIAM M. MERCER

INCORPORATED

April 2, 1993

State of Alaska
Public Employees' Retirement Board
Department of Administration
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

### **Actuarial Certification**

The actuarial valuation required for the State of Alaska Public Employees' Retirement System has been prepared as of June 30, 1992 by William M. Mercer, Incorporated. The purposes of the report include:

- (1) a review of experience under the Plan for the year ended June 30, 1992;
- (2) a determination of the appropriate contribution rate for each employer in the System;
- (3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG Peat Marwick, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to the Board in October 1991.

The contribution requirements are determined as a level percentage of payroll, and reflect the cost of benefits accruing in FY93 and a 25-year rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of assets to liabilities increased from 88.1% to 91.2% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

One Union Square Suite 8200 600 University Street Scattle WA 98101, 3137

206 292 7000

A Marsh & McLennan Company



Public Employees' Retirement Board April 2, 1993 Page 2

The valuation reflects a change in the determination of the actuarial value of the fixed income portion of the assets, from book value to full market value. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,

Brian R. McGee, FSA

Principal

BRM/JWJ/SGM/jls

Peter L. Godfrey, FIMASSociate

Alaska Public Employees' Retirement System

# **Principle Results**

un	ding Status as of June 30:	1991	1992
(a)	Valuation Assets* Accrued Liability*	\$ 2,942,121	\$3,409,859**
(b)	Non-Medical Benefits     Total Benefits	2,437,555	2,735,178
(a)	(including medical) Funding Ratio, (a) / (b)	3,339,145	3,740,882
(c)	i) Non-Medical Benefits ii) Total Benefits	120.7%	124.7%
	(including medical)	88.1%	91.2%
*	In thousands.	•	
**	Reflects change in asset valuation method.		

mployer Contribution Rates for Fiscal Year:	1994	1995
(a) Consolidated Rate	10.18%	10.90%
(b) Average Past Service Rate	3.54%	2.80%
(c) Average Total Contribution Rate	13.72%	13.70%

## **Actuarial Assumptions and Methods**

### Valuation of Liabilities

A. Actuarial Method - Projected Unit Credit (no change). Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued liability is amortized over 25 years. Any funded surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An **Accrued Liability** is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The **Unfunded Liability** at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the **Past Service Cost**.

The **Normal Cost** is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

#### B. Actuarial Assumptions -

1.	Investment Return	8.75% pc	er year, c	ompounded annually, net of expenses.
2.	Salary Scale	6.5% pe thereafte	-	the first five years of employment and 5.5% per year
3.	Total Inflation			measured by the Consumer Price Index for urban and or Anchorage is assumed to increase 5% annually.
4.	Health Cost Trend	FY92 FY93	-	12.5% 11.5%

FY92 - 12.5% FY93 - 11.5% FY94 - 10.5% FY95 - 9.5% FY96 - 8.5% FY97 and later - 7.5%

5. Mortality

1984 Unisex Pension Mortality Table, set forward one year for male and police/fire members, and set backward four years for female members.

Deaths are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others".

6. T	urnover	Based upon the 1986-90 actual total turnover experience	e. (See Table 1).
------	---------	---	-------------------

# 7. Disability Incidence rates, based upon the 1986-90 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others".

8. Retirement Age Retirement rates based upon the 1986-90 actual experience in accordance with Table 3.

- 9. Spouse's Age Wives are assumed to be four years younger than husbands.
- 10. Dependent Children

  Benefits to dependent children have been valued assuming members who are not single have one dependent child.
- 11. Contribution Refunds
  100% of those terminating after age 35 with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
- 12. C.O.L.A. Of those benefit recipients who are eligible for the C.O.L.A., 71% are assumed to remain in Alaska and receive the C.O.L.A.
- 13. New Entrants Growth projections are made for the active PERS population under three scenarios:

Pessimistic: 1% per year Median: 3% per year Optimistic: 5% per year

14. Expenses Expenses are covered in the investment return assumption.

#### Valuation of Assets

Based upon the five-year average ratio between actuarial and book values of the System's assets. Prior to June 30, 1992, the actuarial value of assets equalled the market value, except that fixed income investments were carried at book value. Effective June 30, 1992, the actuarial value of assets equals the full market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG Peat Marwick. Valuation assets cannot be outside the range of book and actuarial values.

## Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY93, the pre-65 monthly premium is \$310.80 and the post-65 premium is \$108.37, based on a total blended premium of \$226.90. For FY94, the pre-65 monthly premium is assumed to be \$346.54 and the post-65 premium is assumed to be \$120.83, based on a total blended premium of \$252.99. The FY93 rates and the pre-65/post-65 split were provided by Deloitte & Touche.

# Table 1

# Alaska PERS Total Turnover Assumptions

Select Rates of Turnover During the First 10 Years of Employment Ultimate Rates of Turnover After the First 10 Years of Employment

## Police and Fire:

		4.			
Year of		Age at Hire			
Employment	20-29	30-39	40+	Age	Pate
1	.22	.18	.10	20-39	.03
2	.19	.13	.10	40+	.01
3	.13	.12	.10		
4	.12	.12	.10		
5	.10	.10	.10		
. 6	.08	80,	.08		a. ·
7	.07	.07	.07		· · · · ·
8	.06	.06	.06		
9	.05	.05	.05		
10	.04	.04	04		
10	.04	,0-			

## Others:

Year of Employment	20-29	Age at Hire	30+	Age	Rate
· , , , , , , , , , , , , , , , , , , ,	.30		.23	20-29	.065
2	.23		.18	30-34	.060
3	.20		14	35-44	.055
4	.16		.13	45+	.050
5	.16		.13		
6	.14		.13	•	• ;
7	.12		.12		
8	.11		.11		
9	.09		.09	1.	
10	.08		.08		
		•	•		

Table 2

# Alaska PERS Disability Rates Annual Rates Per 1,000 Employees

		Police & Fire	"Other" Member
	Age	Rate	Rate
	20	85	· : <b>14</b>
	21	.87	.14
	22	.90	5. <b>14</b>
	23	.94	.15
	24	.98	
•	25	1.03	<b>.1</b> 5
	. 26	1.08	.15
	27	1.13	.15
	28		
·	29	1.25	.16
	30	1.31	.16
	31	1.37	1.17
		1.43	.17
14. St. 15.	32	1.44	
	33 34	1.48	.34
<del></del>	35	1.55	.44
			.53
	36	1.65	.64
	37	1.78	
	. 38	1.94	.75
	39	2.13	.87
	40	2.35	.99
	41	2.60	4 14 15 15 16 4 1.12 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
	42	2.88	1.25
	43	3.19	1.39
5 - 4 - 4 - 4 - 4 - 4 - 4 - 4 - 4 - 4 -	44	3.53	<u> </u>
	45	3.90	1.68
	46	4.30	1.84
	47	4.73	2.00
	48	5.19	2.17
	49	5.68	2.34
	50	6.20	2.52
	51	6.75	2.70
	52	7,33	2.89
	53	7.94	3.08
	54	8,58	3.29
	55	9.25	3.49
	56	9.95	3.70
	00		3.92
	57	10,68	
	57 58	11.44	4.14
	57	10.68 11.44 12.23	4.14 4.37
	57 58 59	11.44 12.23	4.14
	57 58 59 60	11.44 12.23 13.05	4.14 4.37
	57 58 59 60 61	11.44 12.23 13.05 13.90	4.14 4.37 4.61 4.84
	57 58 59 60	11.44 12.23 13.05	4.14 4.37 4.61

Table 3

# Alaska PERS Retirement Rates

A section of the sect	Police & Fire	"Other" Member
Age	Rate	Rate
50	.25	.11
51	.14	.08
52	.14	.08
53	.15	.08
54 .		
55	.30	.19
56	.25	.16
. 57	.21	.13
58	.21	.12
59	.20	1 11 11 11 11 1 1 1 1 1 1 1 1 1 1 1 1
60	.20	.17
61	.40	.14
62	1.00	.21
63	# <b>1.00</b>	
64	1.00	.22
65	1.00	.31
66	1.00	.61
67 & Up	1.00	1.00

For ages less than 50, employees are assumed to retire two years after the earliest age they are eligible to retire.

# Schedule of Active Member Valuation Data

# All Others

<b>V</b> aluation Date	Number	Annual Payroll (000s)	Annual Average Pay	Percent Increase In Average Pay
June 30, 1992	28,206	\$961,054	\$34,073	2.5%
June 30, 1991	27,307	907,567	33,236	4.7
June 30, 1990	26,667	846,935	31,760	.6
June 30, 1989	25,630	808,835	31,558	-4.7
June 30, 1988	24,349	806,100	33,106	2.4
June 30, 1987	24,443	790,463	32,339	3.6
June 30, 1986	25,272	788,555	31,203	4.7
June 30, 1985	24,776	738,198	29,795	.7
June 30, 1984	23,437	693,148	29,575	6.5
June 30, 1983	22,266	618,816	27,792	7.6
		Police/Fire	To the second	
June 30, 1992	2,515	\$122,762	\$48,812	2.8%
June 30, 1991	2,533	120,240	47,470	9.2
June 30, 1990	2,419	105,135	43,462	.9
June 30, 1989	2,414	104,000	43,082	-2.0
June 30, 1988	2,327	102,265	43,947	1.0
June 30, 1987	2,319	100,839	43,484	1.5
June 30, 1986	2,371	101,537	42,825	11.6
June 30, 1985	2,407	92,381	38,380	1.9
June 30, 1984	2,366	89,118	37,666	. 9
June 30, 1983	2,437	91,006	37,343	9.2

# Schedule of Retirants and Beneficiaries Added to and Removed from Rolls

# All Others

Added to Rolls		Remov	emoved from Rolls Rolls		End of Year	Percent Increase in	Average		
Year Ended	Na.	Annual Allowances*	No.	Annual Allowances*	No.	Annual Allowances	Annual Allowances	Average Annual Allowance	
June 30, 1992	435	\$8,520,963	116	\$1,323,560	8,005	\$94,894,329	8.2%	\$11,854	
June 30, 1991	876	15,277,842	8	85,072	7,686	87,696,926	21.0	11,410	
June 30, 1990	457	5,776,756	94	986,060	6,818	72,504,156	7.1	10,634	
June 30, 1989	352	3,651,450	212	2,225,364	6,455	67,713,460	2.2	10,490	
June 30, 1988	1,014	11,532,405	35	361,515	6,315	66,287,374	20.3	10,497	
June 30, 1987	1,011*	14,821,733	31*	288,827	5,336	55,116,484	35.8	10,329	
June 30, 1986	416	3,718,750	110	1,029,270	4,356	40,583,578	7.1	9,317	
June 30, 1985	484	7,490,537	102	869,652	4;050	37,894,098	21.2	9,357	
June 30, 1984	365	4,039,978	- 43	354,535	3,668	31,273,213	13.4	8,526	
June 30, 1983	464	5,632,694	43*	327,574	3,346	27,587,770*	23.8	8,245	
			out, par activité () april : autorité () autorité () : a () autorité () : a () autorité () : a () : a autorité () : a () : a	Police/Fire					
June 30, 1992	35	\$1,202,004	8	\$195,248	699	\$17,407,272	6.1%	\$24,903	
June 30, 1991	129*	3,408,774	4*	95,704	672	16,400,516	25.3	24,406	
June 30, 1990	38	907,997	.3	71,784	547	13,087,446	6.8	23,926	
June 30, 1989	128*	2,686,748	3*	74,724	512	12,251,233	27.1	23,928	
June 30, 1988	72	1,991,318	-	<u>-</u>	387	9,639,209	26.0	24,908	
June 30, 1987	96	3,054,160	82	1,720,032	315	7,647,891	21.1	24,279	
June 30, 1986	36*	949,954	2*	40,482	301	6,313,763	16.8	20,976	
June 30, 1985	77*	1,966,581	1*	18,093	267	5,404,291	56.4	20,241	
June 30, 1984	16	281,303	4	72,560	191	3,455,803	6.4	18,093	
June 30, 1983	34	817,005	.5	83,795	179	3,247,060*	29.2	18,140	

<sup>\*</sup> Estimated.

# Summary of Accrued and Unfunded Accrued Liabilities

# All Others

Valuation Date	Aggregate Accrued Liability (900s)	Valuation Assets (000s)	Assets as a Percent of Accrued Liability	Unfunded Accrued Liabilities (UAL)(000s)	Annual Active Member Payroll(000s)	UAL as a Percent of Annual Active Member Payroll
June 30, 1992 <sup>(1)</sup>	\$3,148,364	\$2,869,772	91.2%	\$278,592	\$961,054	29.0%
June 30, 1991 <sup>(2)</sup>	2,815,819	2,481,018	88.1	334,801	907,567	36.9
June 30, 1990	2,331,243	2,266,871	97.2	64,372	846,935	7.6
June 30, 1989 <sup>(2)</sup>	2,161,247	1,980,098	91.6	181,149	808,835	22.4
June 30, 1988	1,921,949	1,786,648	93.0	135,301	806,100	16.8
June 30, 1987	1,621,470	1,615,723	99.6	5,747	790,463	.7
June 30, 1986	1,306,937	1,332,956	102.0	· · · -	788,555	_
June 30, 1985 <sup>(2)(3)</sup>	1,114,997*	1,046,982*	93.9	68,015	738,198	9.2
June 30, 1984	950,196	833,537	87.7	116,659	693,148	16.8
June 30, 1983	788,862	667,589	84.6	121,273	618,816	19.6
			Police/Fire			
June 30, 1992 <sup>(1)</sup>	\$592,518	\$540,087	91.2%	\$52,431	\$122,762	42.7%
June 30, 1991 <sup>(2)</sup>	523,326	461,103	88.1	62,223	120,240	51.7
June 30, 1990	422,275	410,615	97.2	11,660	105,135	11.1
June 30, 1989 <sup>(2)</sup>	402.021	368,325	91.6	33,696	104,000	32.4
June 30, 1988	324,634	301,780	93.0	22,854	102,265	22.3
June 30, 1987	283,535	282,530	99.6	1,005	100,839	1.0
June 30, 1986	249,673	254,643	102.0	-	101,537	-
June 30, 1985 <sup>(2)(3)</sup>	213,967	201,164	93.9	12,803	92,381	13.9
June 30, 1984	175,668	154,101	87.7	21,567	89,118	24.2
June 30, 1983	153,442	129,853	84.6	23,589	91,006	25.9

<sup>(</sup>i) Changes in Asset Valuation Method.

<sup>(</sup>a) Change of Assumptions.

<sup>(3)</sup> Change in Funding Method.

<sup>\*</sup> Estimated

	Communication (Communication)	S	olven <b>cy Te</b> st			All the second s	
	Aggrega	ite Accrued L	e Accrued Liability For:		Portion of Accrued Liabilities Covered by Assets		
Valuation Date	(1) Active Member Contributions	(2) Inactive Members (000s)	(3) Active Members (Employer- Financed Portion) (000s)	Valuation Assets (000s)	(1)	(2)	(3)
June 30, 1992(1)	\$484,590	\$1,783,020	\$1,473,272	\$3,409,859	100%	100%	91,2%
June 30, 1991(2)	422,656	1,621,590	1,294,899	2,942,121	100	100	88.1
June 30, 1990	380,680	1,285,515	1,087,323	2,677,486	100	100	97.2
June 30, 1989(2)	329,966	1,217,648	1,015,654	2,348,423	100	100	.91.6
June 30, 1988	305,483	1,030,048	911,052	2,088,428	100	100	93.0
June 30, 1987	216,504	820,853	867,648	1,898,253	100	100	99.6
June 30, 1986	210,115*	493,724	852,771*	1,587,599	100	100	100.0
June 30, 1985(2)(3)	169,433	466,222	693,574*	1,248,146	100	100	93.9
June 30, 1984	125,534*	410,235	590,095*	987,638	100	100	87.7
June 30, 1983	86,389*	352,753	503,162*	797,442	100	100	84.6

Changes in Asset Valuation Method.
Change of Assumptions.
Change in Funding Method
Estimated

# Analysis of Financial Experience

# Change in Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience

56% 16 1.58	-3.17% .26 .48 2.02	-1.42% 07 67 .68	2.29% 02 39	5.66% 19 .57
-,16	,26 .48	07 67	02	19
-,16	.48	67		
f			39	57
1.58	2.02	68		,
Į		.00.	.22	-
i	· 	<u>.86</u>	<u>10</u>	<u>-3.37</u>
1				
.86	41	62	2.20	2.67
88	-	-	-	; -
-	.55	-	-	-
<u> </u>		<u> </u>	· <del>-</del>	03
02%	.14%	62%	2.20%	2.70%
	88 	88 - .55 	.864162 88 55 -	.864162 2.2088

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**INVESTMENT SECTION** 

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## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX S JUNEAU, ALASKA 99811-0400 PHONE: (907) 465-2300 TELEFAX: (907) 465-2389

# Message from the Commissioner

emarkable achievement in a year of transition is the best way to describe this year's investment results for the Public Employees' Retirement System (PERS). The investment portfolio earned 14.25% and placed in the top performance quartile of all public retirement systems in the nation. This was accomplished even though fiscal 1993 was a year in transition.

The fixed income portfolio earned over 15% for the year, a performance topping almost all employee retirement plans in the United States. Staff has consistently managed the fixed income portfolio with superior results. Over the last five years the portfolio earned 12.3%. This longer-term performance was also better than almost all employee retirement plans.

The largest asset class is fixed income. The second largest asset class is U.S. equity securities. Returns for both these asset classes exceeded their benchmarks by wide margins. The fixed income portfolio beat the *Lehman Government/Corporate Index* by two full percentage points and the equity portfolio exceeded the *S&P 500 Index* by over two percent. This is good news for beneficiaries and employers.

Returns in excess of the 8.75% actuarial rate, which was used to determine funded status and employer contribution rates, increase funded status and reduce employer contribution rates. Funding status is a measure of security to beneficiaries. Full funding is 100% and in general terms this is the point where total assets equal the present value of projected benefit payments. The change in actuarial assumptions, particularly in the area of health care costs, inflation, and investment earnings, makes funding status a moving target. For PERS, the funded rate is above 90%. This is much higher than the average state pension fund. In lay terms, the PERS fund is healthy and sound.

There is more good news. The cost of managing the investment portfolio is low compared to an average fund the size of PERS. There are two key points in controlling cost: efficiency and effectiveness. Automation is a key component of cost control for the Treasury Division. The Division is highly computerized allowing staff to be very efficient in an environment of superior internal controls. Another major cost savings is achieved by managing the fixed income portfolio in-house by a very small staff. This same staff also manages the debt portfolio for other state funds including the Teachers' Retirement Fund. It is important to note that cost savings were accomplished without compromising prudent investment management standards.

The excellent returns of last year should not be viewed as a single event. Each year must be observed as part of a long-term plan. Pension benefits will be paid years into the future for those retired and those beginning their working career. The investment horizon should be commensurate with the benefit horizon. With this in mind, I initiated an asset allocation

study and development of investment policies and objectives. The results of this effort, including an implementation plan, were adopted July, 1992. The plan is designed to position the fund for outstanding future performance within conservative risk standards. During the year, fixed income portfolio investment grade standards were articulated. Equity managers were evaluated and restructured. New U.S. equity managers were hired to provide style and market capitalization diversification; new international equity managers were hired for regional specialization; and equity managers were hired with a global mandate.

While we were transitioning to the new investment plan, we were also in the process of transferring control to an investment board. Legislation passed in 1992, and signed into law by Governor Walter J. Hickel, created an eight member board of trustees to assume fiduciary responsibility no later than July 1, 1993. This was a responsibility previously held by the Commissioner of Revenue. The transition went smoothly and efficiently. During the year we conducted several meetings including a three-day educational seminar. By July 1, the new trustees were ready and they assumed their fiduciary role. I was proud to turn over to the board a fund that has achieved superior results and is well positioned for the future.

I am confident the board will provide responsive and responsible investment management oversight. Beneficiaries, the State of Alaska as plan sponsor, and participating employers should be well served. I have participated with the board for almost nine months and I know the trustees are dedicated and hard working.

In conclusion, it is the staff—the men and women working for Treasury Division—that made it all happen. Their skill and dedicated efforts made it possible to realize our accomplishments. I personally extend my thanks and appreciation to them. And we should all be thankful that they will continue to serve as staff to the Alaska State Pension Investment Board.

Sincerely,

Darrel J/Rexwinkel Commissioner

# **ALASKA STATE PENSION INVESTMENT BOARD**



William A. Corbus Chair Appointed by the Governor Term Expires: 1/1/95



Gail R. Oba
Vice Chair
Appointed by the Governor
Term Expires: 1/1/96



**Gary M. Bader** PERS representative Term Expires: 12/30/94



Ross A. Kinney Appointed by the Governor Term Expires 1/1/97



Roxy A. McDonagh TRS representative Term Expires: 12/30/93



Merritt C. Olson TRS representative Term Expires: 12/30/95



J. P. "Pat" Wellington
PERS representative
Term Expires: 12/30/96



Darrel J. Rexwinkel Statutory representative

# **ORGANIZATION**

#### STAFF

Commissioner

Darrel J. Rexwinkel

**Chief Investment Officer** 

Robert D. Storer

Investment Officers

Michael S. Cheung, CFA, Marketable Debt

Jeff Hassler, Real Estate

**Deputy Commissioner** 

Laraine L. Derr

Comptroller

Mark W. Prussing, CPA

Cash Management

Vernon B. Voss

#### Investment Consultants

Dorn, Helliesen & Cottle Berkeley, CA

## **Domestic Equity Large Cap**

Ark Asset Management Co., Inc.

New York, NY
IDS Advisory Group

Minneapolis, MN
Invesco MIM, Inc.

Atlanta: GA

MacKay-Shields Financial Corporation New York, NY

Newbold's Asset Management, Inc. Bryn Mawr, PA

#### **Domestic Equity Small Cap**

Capital Guardian Trust Co.

Los Angeles, CA

John McStay Investment Counsel

Dallas, TX

The Putnam Companies

Boston, MA

RCM Capital Management

San Francisco, CA

#### **Tactical Asset Allocation**

Wells Fargo Nikko Investment Advisors
San Francisco, CA

#### **Domestic Equity Index**

State Street Global Boston, MA

# International Equity—Pacific Basin EX Japan

G.T. Capital Management

San Francisco, CA

Wellington Management Co.

Boston, MA

#### International Equity—European

Citibank Global Asset Management New York, NY

## International Equity—EAFE

J. P. Morgan Investment Management, Inc. London, England

#### **Global Equity**

Lazard Freres Asset Management
New York, NY
Miller, Anderson & Sherrerd
West Conshohocken, PA

### Real Estate Management

AETNA Realty Investors

Hartford; CT

Equitable Real Estate investment Management

New York, NY

Hancock Realty Investors, Inc.

Boston, MA

JMB Institutional Realty Corporation

JMB Group Trust III & IV

Chicago, IL

Karsten Realty Advisors

Los Angeles, CA

JP Morgan Investment Mgmt. Inc.

New York, NY

#### Domestic Fixed Income Treasury Investment Officers

Bellevue, WA

Sentinel Real Estate Corporation

Bob Storer Michael Cheung John Jenks Steve Verschoor

## Investment Advisory Council

Mark T. Finn—Delta Financial Services, Inc. Ronald J. Surz—Centurion Trust Company Robert A. Haugen—UCLA-Irvine

#### Performance Measurement

Callan Associates Inc. San Francisco, CA

#### Independent Auditors

KPMG Peat Marwick Anchorage, AK

#### Global Master Custodian

State Street Bank & Trust Co. Boston, MA

#### Legal Counsel

Morrison & Foerster San Francisco, CA

Alaska Public Employees' Retirement System

# The Economy in FY 1993

iscal Year 1993 was one of uneven growth. The Gross Domestic Product (GDP) grew at an average rate of 4.00% during the first two quarters of the year. This was the highest growth rate since the economy officially emerged from recession more than eighteen months ago. Consumer confidence was high and spending grew at a strong rate of 5.1% during the second quarter of the year.

Simultaneously, consumers were taking advantage of lower interest rates to pay off debt and refinance mortgages. This helped lower the consumer debt-service ratio which is the measure of consumers' debt payment relative to their disposable income. This ratio stood at 16.5% at the end of third quarter, down from 18.7% in the summer of 1991. Economists estimate that for each one percent drop in this ratio, consumers have an additional \$16 billion of disposable income. The expectation of growth in consumer spending led many economists to predict a strong and sustained recovery.

The election of a new President also reinforced optimism in the economy. After twelve years of divided government, Democrats finally control both the White House and Congress. The hope was that an end to political gridlock in Washington would benefit the economy.

Unfortunately, the strong economic momentum did not carry through to the second half of the fiscal year. The economic engine slowed as euphoria dissipated, and the economy only grew 1.2% during the final two quarters. Corporate America continued its restructuring and downsizing. Large scale layoffs became a regular feature of business news. U.S. industries remained skeptical about the strength of the recovery. Uncertainties about economic policies and health care proposals of the Clinton administration also discouraged the private sector from hiring additional workers.

The once mighty consumer brand name companies were especially hard pressed to restructure. Consumers have increased their purchases of generic brand products in the last few years with the effect that premium brand companies are slowly losing their pricing power and market share. To stay competitive, these firms have laid off workers and lowered prices for their products and services.

The consumer sentiment level, which had briefly surged to 90 immediately after the elections, declined continuously in the second half of FY 1993 and closed out the year at 81. Consumer spending attained a lackluster annual growth rate of only 1.2% during the third quarter of the year, a big drop from the 5.1% rate of the second quarter. Consumers, like businesses, were uncertain about the employment picture and forthcoming tax changes.

The rate of inflation remained low during the last twelve months. The weak job market restrained wage and salary growth while corporations continued their attempt to control health care costs. Other indicators also painted a benign inflation picture. The Consumer Price Index (CPI) increased at a relatively low rate of 3.00% for the fiscal year. The Journal of Commerce Commodity Index closed out the year at 95.5, down from the year's beginning level of 99. West Texas Intermediate Crude Oil finished the year at \$19.20 per barrel, down from \$20.75 of the previous year.

Despite the steady reduction in short-term interest rates over the last two years (to the lowest level in 25 years), the economy only grew at a sub-par rate of 2.6% in FY 1993. The Federal Reserve Bank lowered the short-term interest rates in September and remained in a neutral position for the rest of the year. Some people argued that the slow recovery justified another ease in interest rates by the Federal Reserve Bank. Other people argued that the Federal Reserve Bank should maintain its commitment to fight inflation.

The neutral monetary stance of the Federal Reserve Bank has helped short-term interest rates remain at record low levels. Concurrently, concern about future fiscal stimulation by Congress (the \$16 billion fiscal stimulative package) and the budget deficit package caused long-term rates to stay high. The difference in interest rates between a two-year treasury note and a thirty-year treasury bond reached a record spread of 3.65% in October and closed out the year at 2.67%.

Looking forward, there are several issues that could strongly influence the future state of the economy and the capital markets. These include health care reform, the North America Free Trade Agreement (NAFTA), the General Agreement on Tariffs and Trade (GATT), and monetary policy of the Federal Reserve Board.

The Clinton Administration hopes health reform will eventually lower labor costs and improve the competitiveness of U.S. industries. If NAFTA and GATT are adopted, these agreements are expected to eliminate many trade restrictions and lower tariffs. This should lead to the growth of global economy and the continued trend of low inflation. Federal Reserve monetary policy will be closely monitored to determine its affect on the cost of capital for U.S. industries, the shape of the yield curve, and the valuation level of the stock market.

# Investment Overview

iscal Year 1993 began with the acceptance of an asset allocation study performed by the consulting firm of Dorn, Helliesen and Cottle for the Public Employees' Retirement System (PERS). Revenue Commissioner Darrel J. Rexwinkel had initiated the study to create a set of guidelines that would improve the portfolio's performance and minimize market risk.

Concurrent with the asset allocation study, Dorn, Helliesen and Cottle assisted the Commissioner and staff in developing and implementing investment policies.

On July 8, 1992, the Commissioner, Deputy Commissioner, and Chief Investment Officer signed into effect the asset allocation and investment guidelines. Implementation of the policies began with a review and evaluation of each Domestic Equity Portfolio manager's style and historical performance. The review indicated the need for greater diversification, and a realignment of managers was effected.

The performance of the Fixed Income Portfolio, managed internally by Treasury staff, was outstanding with returns for the year of 15.17% which exceeded the benchmark *Lehman Brothers Government/Corporate Index* by 2%. The performance ranked in the top 13 percentile of all funds in the nation.

The Real Estate Section can also look back on the year with satisfaction, having completed a bulk sale of the Mortgage Portfolio. The sale was accomplished at very competitive market prices. Proceeds of the sale were used to purchase other assets that should, over the long-term, add value and increase the liquidity of the portfolio.

For Fiscal Year 1993, total returns for the Public Employees' Retirement System were 14.25%. These

returns were sufficient to rank the performance in the top 25 percentile of public retirement systems in the country. This performance was verified by the Department of Revenue's independent performance measurement consultant, Callan Associates, Inc.

### **Equities**

The implementation of the Asset Allocation Policy began with a thorough review of the Domestic Equity Portfolio that included an evaluation of each equity manager's style and historical performance. As a result of the review, one manager was dismissed, and it was determined that the total equity portfolio was biased toward large capitalized growth stocks (companies with over \$1 billion in assets). This indicated the need for greater style diversification.

With the assistance of the firm of Dorn, Helliesen and Cottle, staff initiated searches to find equity managers with expertise in managing portfolios consisting of companies with smaller capitalization (less than \$1 billion in assets). More than 70 equity management firms were analyzed and of these, six were invited to make presentations to the Commissioner and Treasury staff. Four managers were selected and funded in the fall of 1992. The specialties of these firms split evenly between a style bias for value companies, whose stocks are considered underpriced, and a style bias for growth companies, whose earnings are expected to increase.

Management of the Domestic Equity Portfolio was further diversified by selecting and funding two equity managers who employ large capitalization value style bias. Another manager was hired who uses a "tactical asset allocation" style. This is a method of analyzing the valuations of the equity and bond markets and adjusting the market exposure toward the asset class that adds the greatest value.

With the Domestic Equity Portfolio re-balanced, attention was directed toward the International Equity Portfolio. The existing international portfolio consisted of two managers with a mandate to outperform the *Morgan Stanley Capital International Europe, Australia, and Far East Index* (EAFE), the benchmark index for international investments.

It was decided to retain one of the managers with an EAFE mandate and to assign the other manager a portfolio of European equities. An existing domestic equity manager became a "global manager" with an expansion into international equities. Another global manager was hired to help oversee investments in international and domestic stocks. Additionally, two Pacific Basin (excluding Japan) managers were hired.

To round out the international equity allocation plan, the Alaska State Pension Investment Board (ASPIB) will conduct a search during fiscal year 1994 for one or more firms to manage emerging markets. Management selection and funding should be concluded by January, 1994.

# **Equities Performance**

For the quarter ending September 30, 1992: Growth stocks added the most value to the domestic equity market. Stocks with the highest price/earnings ratios were good performers, regardless of their size. Despite the decline in value suffered by the U.S. dollar rise, international equities had a return of 1.5% for the quarter, as measured by the EAFE index. The Japanese and Swiss equity markets were the best performers with returns of 13.6% and 12.3% respectively.

For the quarter ending December 31, 1992: Small capitalization stocks were the strongest performers in the domestic equity market. This sector of the market added double digit returns versus the larger capitalization stock index (S&P 500) of 5.1%. Low inflation and renewed signs of increasing consumer confidence helped propel the domestic equity market. International equities fell 3.9% for the same period. Both Europe and Pacific regional equity markets had negative returns. Europe declined 4.9%

and the Pacific region declined by 2.8%. These regions had negative returns due to continuing signs that Europe and the Pacific regions were in a recession.

For the quarter ending March 31, 1993: Poor performance from the consumer sector of the equity market inhibited returns. This stemmed in part from bad weather in many parts of the country, which kept shoppers home, and from smaller tax refunds during the quarter, contributing to the poor performance of this sector. During the period, smaller capitalization stocks modestly outperformed the larger capitalization stocks. Led by Japan, with returns of 18.6%, the international equity market returned 12%. Investors also profited by a weakened U.S. Dollar during this period. The returns for International equities was 8.5% in local currencies.

Final quarter, ending June 30, 1993: Early fears of inflation were quleted as economic growth failed to keep pace with expectations. The sluggish economy and the strong chance of higher taxes made consumers cautious as they sought low-priced generic goods. Makers of brand-name products in the consumer non-durable sector suffered with negative returns. The apparel (-19.1%), tobacco (-18.7%) and retail (-8.5%) industries were particularly affected.

During this same period, the international equity market provided double digit returns of 10.1% for the second quarter in a row. Japan (19.4%), Hong Kong (12.8%) and Italy (22.2%) were the best performing markets during this period.

Performance of equity managers for Fiscal Year 1993: The aggregate performance of both domestic and international equity managers exceeded the median performance of managers in the Calian Associates' database. The Domestic Equity Portfolio had returns of 15.67%, which exceeded the benchmark S&P 500 Index (13.58%) by over 2%. While out-performing most active managers, the International Portfolio under-performed the EAFE Index (8.44% versus 20.28%) because one manager limited investment exposure to the Japanese stock market. The Japanese stock market had returns in excess of 40%.

The restructuring of the Domestic and International Equity Portfolios should enhance future performances. Risk will also be reduced due to improved style diversification.

#### **Fixed Income**

The Public Employees' Retirement System's (PERS) \$2.006 billion of fixed income investments are managed internally by a staff of three. During Fiscal Year 1993 the fixed income investments produced outstanding returns. The portfolio was constructed to take advantage of several trends in the economy while avoiding several trouble spots.

Fiscal 1993's fixed income returns were measured against both the *LehmanGovernment/Corporate Index* and the Callan Associates' universe of fixed income managers. While Fiscal 1993's returns were excellent, the 3 year and 5 year returns have been outstanding. These returns were produced by a strategy designed for consistent long-term earnings with limited risk. The strategy is based on three principles.

First, investing is a long-term undertaking. Therefore, long-term trends, objectives, and risk/return analysis should guide the process. The long-term focus should not be blurred by short-term opportunities or trends.

Second, investment effort should be focused where the long-term risk return relationship is most advantageous. Our research found that intermediate corporate and government bonds (5 to 10 year maturity) have, since 1926, provided approximately half a percent greater return. Our study also found that these superior returns were achieved with less risk. Consequently, investments are focused on intermediate corporate and government bonds.

Diversification and risk control make up the third element of investment strategy. The corporate bond portfolio is restricted to investment grade bonds. There are no "junk bonds" in the portfolio. PERS will not purchase more than 10% of any individual issue and no individual issuer's debt will comprise more than 5% of the total portfolio. These and other restrictions preserve the liquidity of the portfolio and

reduce the risk that one company's trouble will significantly affect the entire portfolio.

During Fiscal 1993 there were several key economic and market factors that affected the portfolio's return. Subdued inflationary pressure and the economy's erratic and weak performance resulted in lower interest rates along the entire maturity spectrum. These lower rates induced many home owners to refinance their mortgages, which resulted in poor returns within the mortgage backed securities markets. Many fixed income managers reduced their investments in mortgaged backed securities and bought additional U.S. Treasury securities. The U.S. Treasury announced a change in the maturity mix of the securities it will auction in the future. This will reduce the supply of longer maturities and increase the supply of short-term securities. The net results were a lower, flatter yield curve and better returns for longer maturity bonds.

The slowly improving economy helped reduce the required credit premium on corporate bonds. As a result, corporate bonds had better performance than similar U.S. Treasury bonds.

The PERS portfolio had a slightly longer maturity and a greater concentration in high grade corporate bonds than the *Lehman Government/Corporate Index*. It is these two characteristics that gave the portfolio its return advantage over the index.

#### Real Estate Equities

Real estate equities consist of holdings in seven commingled funds managed by nationally recognized real estate investment advisors. The market value of these holdings declined from \$118.0 million in FY 1992 to \$114.3 million in FY 1993.

The commingled funds total return improved substantially from -11.8% in FY 1992 to -0.9% in FY 1993. While the income component increased from 5.3% to 6.6%, the greater change was in the appreciation component that improved from -17.1% to -7.6%.

The -0.9% total return compares favorably with the NCREIF Index of -3.66%. Callan's 150 fund performance database median reflected a total return of 0.55.

While improvements in total returns have been achieved, our commingled tunds have not yet reverted to providing positive returns that were common in the early and mid 1980s. What should be noted, however, is that the income component of the total return is positive and improving. The improvement is signaling that the rate of real estate value loss is declining.

Overall, real estate values appear to be stabilizing.

Apartments have lead all other real estate classes in recovery. Pension funds, private investors and Public Real Estate Investment Trusts (REITs) have been very active in the buy side of the market. The result has been substantial downward pressure on initial yields with more product coming on the market because of higher pricing.

Industrial property values have been buffeted by more negative factors than any other major real estate class. Over-building, the real estate recession, fundamental production and distribution system changes, as well as defense cut backs, have affected values.

Retail properties were negatively affected as disposable income declined and buyers postponed large ticket purchases. With continued low public confidence in the near term economic recovery, retail sales recovery continues to be slow. Properly developed and located shopping centers have not been affected as dramatically as other retail property types. The office market, because of severe overbuilding and tenant downsizing, continues to be troubled.

Most observers expect a gradual recovery of the real estate market by end of the decade. Over-building and projected slow nationwide recovery are the most often cited reasons for the sluggish growth.

The recent value losses and slow growth scenario have not produced a flood of aggressively priced quality properties from distressed sellers (i.e.: insurance companies, commingled funds, banks). There appears to be a great deal of capital available for quality, investment grade real estate as many funds have unfilled real estate asset allocations. It is also reported that more pension funds are becoming involved with real estate as available returns are improving in certain classes and many locations.

Because of heavy weighting towards apartments and high quality retail, the PERS commingled fund investments should continue to see gradual increased income and total returns as the economic recovery continues.

### Investment Summary Year Ended June 30, 1993 (000s omitted)

	6/30/92 Book Value		Purchases & Rethvested Income	ang ngangananana ara ara-ang ng gigi Si Si	Book	6/30/93 Market Value	% Total Market
Marketable Debt Secur	ities						
U.S. Government Debt	\$ 715,944	804,158	483,381	283,574	850,199	1,003,965	25.37%
Federal Agency Debt	56,095	57,766	14,196	10,687	56,342	61,275	1,55
Mortgaged Backed							
Federal Securities	5,762	5,848	-	5,848		-	-
Corporate Debt	803,736	852,468	225,044	236,602	749,392	840,910	21.25
Commercial Paper	-	' =	289,859	190,000	99,887	99,859	2,53
Equity Securities							
Domestic Equity Pool International	1,125,674	1,296,970	243,844	•	1,384,059	-1,540,814	38.94
Equity Pool	191,441	187,632	100,543		283,239	288,175	7.28
Real Estate							
Mortgage Loans,	•	·					100
Net of Allowance	67,575	76,236	11,700	79,568	8,368	8,368	0.21
Real Estate Equity	,	•		•	•	·	
Investments	<u>152,285</u>	118,049	<u>5.757</u>	<u>10.368</u>	<u> 155.164</u>	<u>113,438</u>	<u>2.87</u>
Total Investments	\$3,118,512	3,399,127	1,374,324	816,647	3,586,650	3,956,804	100.00%

### Schedule of Investment Results Fiscal Years Ended June 30

						Annua	lized
	1989	1990	1991	1992	1993	3 Year	5 Year
Total Fund PERS CPI	14.12% 4.85	10.05% 4.68	7.21% 4.69	11.60% 3.09	14.25% 2.82	10.98% 3.44	11.42% 4.00
U.S. Common Stock Returns PERS Domestic Equity S&P 500	18.02 20.53	16.50 16.41	5.87 7.41	11.10 13.45	15.68 13.58	11.50 11.44	13.51 14.19
International Stock Returns PERS International Equities Morgan Stanley Capital Internt'l EAFE	9.05 9.52	15.04 3.26	-7.97 -11.53	7.74 -0.64	8.44 20.28	2.44 1.87	6.17 3.64
Domestic Fixed Income PERS Lehman Brothers	14.26	6.85	10.32	15.10	15.17	13.51	12.29
Government/Corporate  Real Estate Equity  PERS  NCREIF Index	12.34 5.36 6.22	7.11 -6.32 1.46	-12.11 -6.08	-6.24 -4.60	-0.93 -3.66	-8.43 -3.94	-2.81 0.04

### Schedule of Investment Management Fees Year Ended June 30, 1993

Investment Advisors	
Dorn, Helliesen & Cottle	\$55,834
Performance Measurement	
Callan Associates, Inc.	33,011
SEI Funds Evaluation Services	8,200
The WM Company	2,151
Real Estate Consultants	
Institutional Property Consultants	11,000
Domestic Equity Managers	
Ark Asset Management Co., Inc.	760,344
Capital Guardian Trust Co.	120,752
Fred Alger Management	95,159
IDS Advisory Group	577,304
Invesco MIM, Inc.	390,534
McKay-Shields Financial Corp.	75,547
John McStay investment Counsel	333,908
Newbold's Asset Management, Inc.	104,200
The Putnam Companies	276,171
RCM Capital Management	245,622
State Street Global Asset Management	148,703
Tactical Asset Allocation Managers	
Wells Fargo Nikko Investment Advisors	273,340
Global Equity Managers	
Lazard Freres Asset Management	52,902
Miller, Anderson & Sherrerd	736,236
International Equity Managers	
Citibank Global Asset Management	439,164
G.T. Capital Management	18,642
J.P. Morgan Investment Mgt., Inc.	446,338
Wellington Management Co.	23,693
Total	\$5,228,755

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# STATISTICAL SECTION

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System Membership						
Year	Active	Retirees & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total	
1983	24,703	3,525	926	4,249	33,403	
1984	25,803	3,859	1,333	7,849	38,844	
1985	27,183	4,317	1,525	7,945	40,970	
1986	27,643	4,657	1,766	8,155	42,221	
1987	26,762	5,651	1,921	3,965	38,299	
1988	26,676	6,702	1,898	3,101	38,377	
1989	28,044	6,967	2,314	3,365	40,690	
1990	29,086	7,365	2,745	3,695	42,891	
1991	29,840	8,358	3,015	4,108	45,321	
1992	30,721	8,704	3,249	4,380	47,054	
				-		

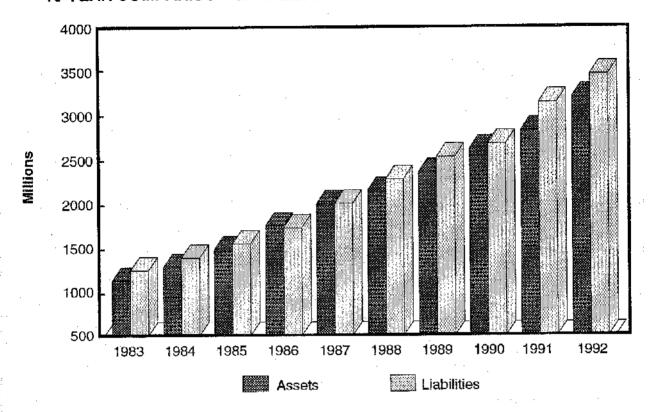
Retiree Average Age and Benefits					
Year	# Retirees	Average Age	Average Monthly Benefit		
1983	3,525	63.49	\$ 729		
1984	3,859	63.80	750		
1985	4,317	63.82	836		
1986	4,657	64.05	839		
1987	5,651	60.39	925		
1988	6,702	62.82	945		
1989	6,967	63.28	957		
1990	7,365	63.62	968		
1991	8,358	63.15	1,038		
1992	8,704	63.58	1,075		

Benefit Recipients By Type of Benefit						
Year	Service	Surviving Spouse	Survivor	Disability	Total	
		All	Others			
1984	3,417	. 178	14	59	3,668	
1985	3,754	217	14	65	4,050	
1986	4,017	249	16	74	4,356	
1987	4,952	280	21	83	5,336	
1988	5,844	342	21	108	6,315	
1989	5,906	395	23	131	6,455	
1990	6,211	433	23	151	6,818	
1991	7,049	. 467	-2	168	7,686	
1992	7,304	518	3	180	8,005	
		Pol	ice/Fire			
1984	151	7	14	19	191	
1985	224	. 8	14	21	267	
1986	252	10	14	<b>2</b> 5	301	
1987	264	11	14	26	315	
1988	328	11	14	34	387	
1989	439	18	14	41	512	
1990	474	19	14	40	547	
1991	600	31	0	41	672	
1992	615	33	0	51	699	

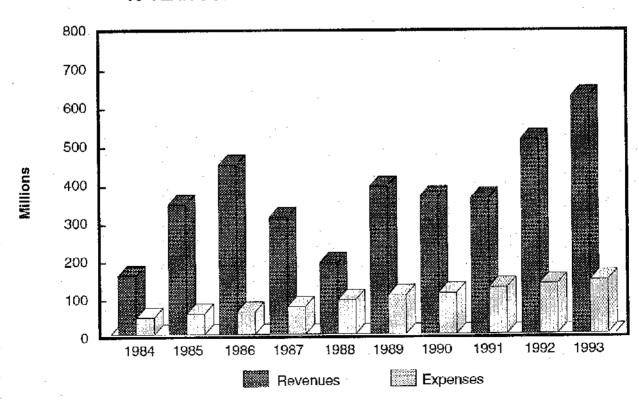
A Comment of the Comm	Benefit Payments By Type of Benefit						
Year	Service	Surviving Spouse & Survivor	Disability	COLA!	PRPA 2	Voluntary Annuity	Total
			All C	Others			
1984	\$22,948,281	\$1,061,905	\$531,571	\$1,978,963	\$3,158,007	\$6,093	\$29,684,820
1985	26,716,551	1,191,981	599,736	2,314,906	4,710,953	5,764	35,539,891
1986	30,783,660	1,510,873	661,684	2,689,418	5,705,759	7,911	41,359,305
1987	38,286,689	1,678,314	918,318	3,306,971	6,855,297	6,661	51,052,250
1988	49,908,865	1,886,816	1,352,880	4,272,015	6,670,156	<sub>3.</sub> 5,419	64,096,151
1989	56,581,608	2,253,603	1,537,276	4,744,460	7,722,657	4,499	72,844,103
1990	56,706,543	2,553,732	1,795,950	4,749,861	8,798,255	4,336	74,608,677
1991	66,498,467	2,862,406	1,958,274	5,536,605	9,642,923	2,995	86,501,670
1992	70,906,281	3,226,643	2,188,749	5,781,788	11,988,778	3,277	94,095,516
			Police	/Fire			
1984	\$2,325,300	\$268,192	\$ 255,246	\$206,409	\$ 319,448	\$403	\$ 3,3 <b>7</b> 4,998
1985	2,623,083	276,005	326,124	235,026	486,300	136	3,946,674
1986	3,012,464	242,810	405,985	267,954	627,285	_	4,556,498
1987	4,564,450	253,767	436,133	399,462	767,201	-	6,421,013
1988	7,055,927	267,169	639,047	623,044	775,307	_	9,360,494
1989	7,498,963	302,351	722,067	635,839	900,807	-	10,060,027
1990	7,639,142	341,165	1,022,664	644,284	1,064,988	_	10,712,243
1991	9,916,920	381,087	878,533	836,279	1,136,334	-	13,149,153
1992	10,620,889	411,640	1,022,998	903,166	1,305,885	-	14,264,578

Cost of Living in Alaska
 Post Retirement Pension Adjustment (Cost of Living Allowance)

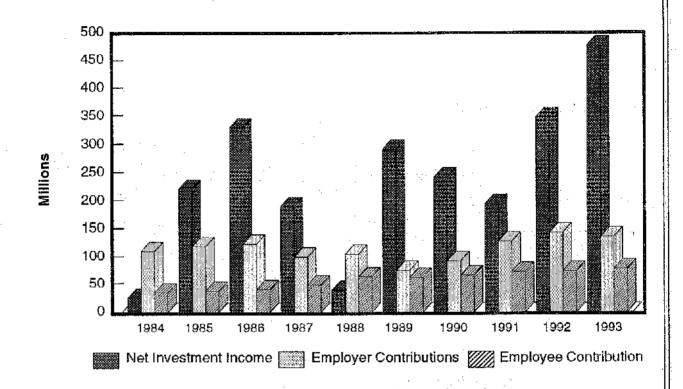
### 10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES



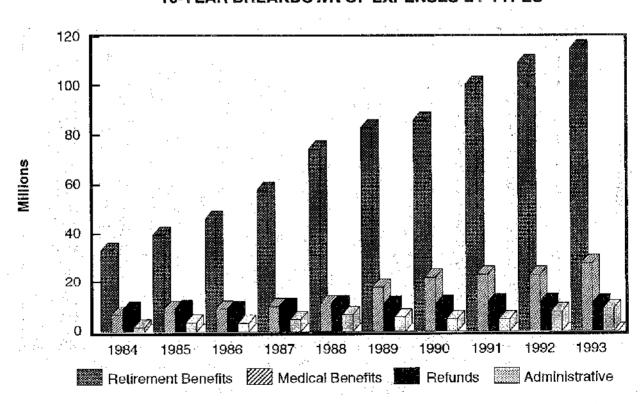
### 10-YEAR COMPARISON OF REVENUES AND EXPENSES



### 10-YEAR BREAKDOWN OF REVENUES BY SOURCE

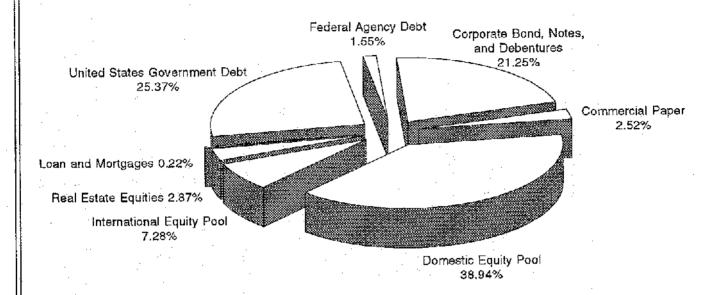


### 10-YEAR BREAKDOWN OF EXPENSES BY TYPES

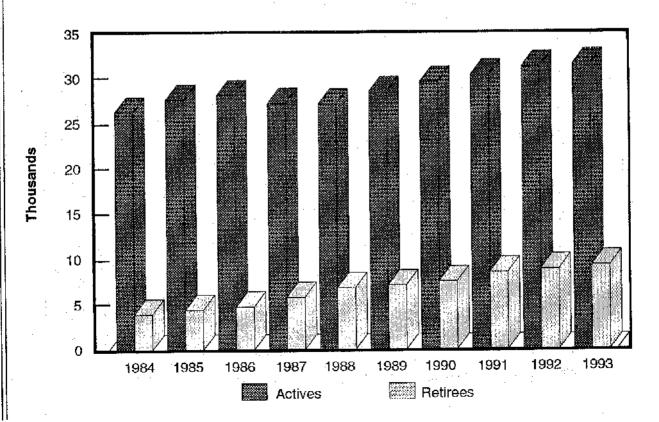


### **INVESTMENT PORTFOLIO**

Year Ended June 30, 1993



### 10-YEAR COMPARISON OF ACTIVES AND RETIREES



### PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES FISCAL YEAR 1993

Employer	Contribution Percentage
Akutan, City of	11.94
Alaska, State of	
Policemen, Firemen	15.45
All Other Employees	14.92
Alaska Gateway School District	12.83
Alaska Housing Finance Corporation	9.15
Alaska Municipal League	10.00
Alaska, University of	6.75
Alaska Geophysical Institute, University of	6.75
Aleutian Region School District	0.00
Aleutians East Borough	10.00
Aleutians East Borough School District	10.24
Aleutians West Coastal Resource Service Area	11.13
Allakaket, City of	12.83
Anchorage, Municipality of	12.31
Anchorage Parking Authority, Municipality of	6.33
Anchorage School District	14.89
Annette Island School District	9.89
Atka, City of	14.47
Barrow, City of	0.00
Bartlett Memorial Hospital	12.12
Bering Straits Coastal Resource Service Area	0.37
Bering Strait School District	7.97
Bethel, City of	12.83
Bristol Bay Borough	11.82
Bristol Bay Borough School District	17.89
Bristol Bay Coastal Resource Service Area	13.90
Bristol Bay Housing Authority	5.42
Bristor Day Flodering Authority	
Chatham School District	11,96
Chugach Regional School District	1.69
Cook Inlet Housing Authority	16.70
Copper River Basin Regional Housing Authority	9.31
Copper River School District	9.14
Cordova, City of	13.28
Cordova Community Hospital	0.00
Cordova Public Schools	16.31
Craig, City of	9.74
Craig City School District	14.53

### PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES FISCAL YEAR 1993

	Employer (continued)	Contribution Perce	ntage
	Delta/Greely School District	11.96	
	Denali Borough	12.83	
	Denali Borough School District	0.44	
	Dillingham, City of	4.75	
	Dillingham City School District	17.55	
	Elim, City of	19.18	
	Fairbanks, City of	18.37	
	Fairbanks Municipal Utility System	18.37	
	Fairbanks North Star Borough	1.86	
	Fairbanks North Star Borough School District	1.86	
	Fort Yukon, City of	0.00	
	Galena, City of	0.00	·
	Galena City School District	0.00	
	Grayling, City of	17.00	
	Citaying, only or		
	Haines Borough	5.92	•
	Haines Borough School District	11.95	
	Haines, City of	0.00	
	Homer, City of	13.69	
-	Hoonah, City of	0.00	٠
	Hoonah City School District	27.70	
l.	Hooper Bay, City of	13.35	
ŀ	Huslia, City of	12.18	
	Hydaburg City School District	10.29	
	Iditarod Area School District	7.56	
	Interior Regional Housing Authority	16.91	
İ	mand registrar robuing / activity		
	Juneau Borough School District	13,60	
	Juneau, City and Borough of	11.46	
	Kashamak City of	12.83	
	Kachemak, City of Kake City School District	12.83	
ŀ	Kaltag, City of	12.83	
	Kashunamuit School District	12.15	
	Kenai, City of	0,00	
	Kenai Peninsula Borough	13.95	
ĺ	Kenai Peninsula Borough School District	14.95	
ĺ	Ketchikan, City of	25.30	
1	Ketchikan Gateway Borough	7.81	
	Ketchikan Gateway Borough School District	17.48	
1	Hotelmen account a majority and a majority		

### PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES FISCAL YEAR 1993:

Emplayer (continued)	Contribution Percentage
King Cove, City of	0.12
Kivalina, City of	10.82
Klawock, City of	27.13
Klawock City School District	10.73
Kodiak, City of	12.71
Kodiak Island Borough	9.07
Kodiak Island Borough School District	<b>3.2</b> 5
Kotzebue, City of	0.00
Koyuk, City of	<b>12.83</b>
Kuspuk School District	1.96
Lake and Peninsula Borough	14.64
Lake and Peninsula School District	6.24
Lower Kalskag, City of	12.83
Lower Kuskokwim School District	8,95
Lower Yukon School District	9,84
COMOL LUKOLI OCHOOL DIBINOT	0,04
Matanuska-Susitna Borough	8.40
Matanuska-Susitna Borough School District	8.40
Mekoryuk, City of	12.83
Mountain Village, City of	11.94
Nenana, City of	0.00
Nenana City Public Schools	1,20
Nome, City of	5.87
Nome Public Utilities	0.00
Nome City Public Schools	4,05
Noarvik, City of	11.28
North Pacific Fisheries Management Council	0.00
North Pole, City of	0.00
North Slope Borough	4.92
North Slope Borough School District	7.93
Northwest Arctic Borough	8.48
Northwest Arctic Borough School District	0.00
Nuiqsut, City of	24.66
Old Harbor, City of	13.89
Palmer, City of	14.82
Pelican, City of	11.43
Pelican School District	18.79
Petersburg, City of	16.13
Petersburg General Hospital	16.13
Petersburg Public Schools	16.13
Pribilof Regional School District	5.32

### PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES FISCAL YEAR 1993

Employer (continued)	Contribution Percentage
Quinhagak, City of	12.83
Ruby, City of	1.99
Saint George, City of	39.75
Saint Mary's, City of	8.23
Saint Mary's School District	12.73
Saint Paul, City of	0.57
Sand Point, City of	14.62
Saxman, City of	24.43
Selawik, City of	10,00
Seward, City of	7.54
Seward General Hospital	24.34
Shishmaref, City of	12.50
Sitka, City and Borough of	16.15
Sitka Community Hospital	9.25
Sitka School District	11.94
Skagway, City of	0.00
Skagway City School District	26.95
Soldotna, City of	16.04
Southeast Islands School District	2.97
	2.95
South East Regional Resource Center	4.56
Southwest Region Schools	11.13
Special Education Service Agency	11.10
Tanana, City of	1.81
Tanana City School District	14.72
Thorne Bay, City of	7.78
TRIME Buy, Ony Or	
Unalakleet, City of	12.28
Unalaska, City of	0.00
Unalaska City School District	1.19 °
	•
Valdez, City of	9.44
Valdez City Schools	8.82
Minimum and a City of	21.61
Wainwright, City of	10.89
Wasilla, City of	8.68
Whittier, City of	12.33
Wrangell, City of	10.86
Wrangell City Schools	10.00
Valuate City of	14.74
Yakutat, City of Yakutat City School District	12.83
Yukon Flats School District	0.00
	0.00
Yukon-Koyukuk School District	0.00

PLAN SUMMARY

	"我就是我们,我们就是我的一个是一个一个一个一个一个一个一个一个一个一个一个一个一个一个一个一个一个一个
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### **Plan Summary**

#### (1) Effective Date

January 1, 1961, with amendments through June 30, 1993. Chapter 82, 1986 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the PERS before July 1, 1986, are eligible for different benefits than members hired after June 30, 1986.

#### (2) Administration of Plan

The Commissioner of Administration is responsible for administering the System. The Public Employees' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the System. The Alaska State Pension Investment Board is responsible for managing and investing PERS funds. The Attorney General represents the System in legal proceedings.

### (3) Employers included

Currently there are 152 employers participating in the PERS, including the State of Alaska and 151 political subdivisions and public organizations.

#### (4) Members Included

PERS membership is mandatory for all permanent full-time and part-time employees of the State of Alaska and participating political subdivisions and public organizations, unless they are specifically excluded by Alaska Statute or participation agreements. Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the PERS. Elected officials may waive PERS membership.

#### (5) Credited Service

Permanent employees who work at least 30 hours a week earn full-time credit; part-time employees working between 15 and 30 hours a week earn partial credit based upon the number of hours worked. Members receiving PERS occupational disability benefits continue to earn PERS credit while disabled.

Members may claim other types of service, including military, temporary, Alaska Bureau of Indian Affairs, and pre-1961 service with the State, former Territory or U.S. Government in Alaska. Members may also claim certain elected official, peace officer, correctional officer, and fire fighter service that was not creditable at the time it was performed. Leave without pay occurring after June 13, 1987, while a member is receiving Workers' Compensation may be claimed.

Past employment with participating political subdivisions that occurred before the employers joined the PERS is creditable if the employers agree to pay the required contributions.

### (6) Employer Contributions

Individual contribution rates are established for each employer based upon consolidated and past service rates.

The consolidated rate is a uniform rate for all participating employers, which is amortized to include future service liabilities (less the value of members' contributions) for the members' future service.

The past service rate is determined separately for each employer to amortize their

### **Plan Summary**

unfunded past service liability with level payments over 25 years. Funding surpluses are amortized over five years.

#### (7) Member Contributions

Police and fire members are required to contribute 7.5% of their compensation; all other members contribute 6.75%. Members' contributions are deducted from gross wages before federal income taxes are withheld. Member contributions are required for most types of claimed service. Members may voluntarily contribute an additional 5% of their compensation. Members' contributions earn 4.5% interest, compounded semiannually on June 30 and December 31.

Terminated members may receive refunds of their member contribution accounts, which includes their mandatory and voluntary contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies and valid qualified domestic relations orders.

Refunded accounts and the corresponding PERS service may be reinstated upon reemployment in the PERS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until they are paid in full or the member retires.

#### (8) Retirement Benefit

The normal benefit is calculated by multiplying the member's average monthly compensation (AMC) times total PERS service times

the appropriate percentage multiplier. The AMC is determined by averaging the salaries earned during the three highest, consecutive payroll years. The PERS pays a minimum benefit of \$25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers for all other members are 2% for the first ten years of service, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986 (all service before that date is calculated at 2%). The multipliers for police and fire members are 2% for the first ten years and 2.5% for all service over 10 years.

Members vest with five years of PERS service and are eligible for normal retirement at age 60 and early retirement at age 55. Members hired before July 1, 1986, are eligible for normal retirement at age 55 and early retirement at age 50. Under the conditional service provision, members may retire with less service when they reach retirement age and accumulate the required service. Members may also retire at any age with 20 years of police and fire service or 30 years of all other service.

Members may choose between the normal, early, joint and survivor (50%, 66-2/3% or 75%), and level income options. Actuarial adjustments to benefits are required under all options, except for normal retirement.

Retirement benefits will be actuarially reduced when there is an indebtedness remaining at retirement. However, PERS service used to satisfy the minimum service requirements for retirement must be paid in full.

### **Plan Summary**

### (9) Reemployment of Retired Member

Retirement benefits are suspended while retired members are reemployed under the PERS. During reemployment, members earn additional PERS service and contributions are withheld from their wages.

Members who retired under the Retirement Incentive Programs (RIPs) who return to employment under the PERS, Teachers' Retirement System (TRS), or the University of Alaska's Optional Retirement Plan will:

- (a) forfeit the three years of incentive credits that they received.
- (b) owe the PERS 110% of the benefits that they received under the RIP, including any costs for health insurance, and excluding amounts that they paid to participate.
- (c) be charged 7% interest on amounts owed from the date of reemployment until the indebtedness is paid in full or they retire again. Any balance remaining at retirement will result in an actuarial reduction to the member's future benefits.

### (10) Disability Benefit

PERS disability benefits are paid until the member dies, recovers or becomes eligible for normal retirement. When eligible for normal retirement, disability benefits terminate and the member is appointed to normal retirement.

Occupational Disability. There are no age or service requirements to be eligible for occu-

pational disability. Monthly benefits equal 40% of the member's gross monthly compensation on the date of disability. Members on occupational disability continue to earn PERS service until their normal retirement date.

Nonoccupational Disability. Members must be vested to be eligible for nonoccupational disability benefits. Monthly benefits are calculated on the member's average monthly compensation and PERS service at the time of termination due to disability. Members on nonoccupational disability do not continue to earn PERS service.

### (11) Death Benefit

Occupational Death. When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse. The pension equals 40% of the member's gross monthly compensation on the date of death or disability, if earlier. If there is no spouse, the pension is paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit based on the member's salary on the date of death or disability and service, including service that accrues from the date of the member's death or disability to the normal retirement date.

Nonoccupational Death. When an active, vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum payment. The monthly benefit is calculated on the member's average monthly compensation and PERS service at the time of death.

(Continued)

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### Plan Summary

Upon the death of a member who has less than one year of service, the designated beneficiary receives the member's contribution account, which includes mandatory and voluntary contributions, indebtedness payments, and interest earned. The beneficiary also receives an additional \$1,000, plus \$100 for each year of PERS service, if the member has more than one year of PERS service.

Death After Retirement. When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid. If the member selected a survivor option at retirement, the eligible spouse receives a continuing, lifetime monthly benefit.

### (12) Post Retirement Pension Adjustment

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on PERS disability; or
- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least five years.

### (13) Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive the Alaska cost of living allowance (COLA), which is equal to 10% of their base benefits or \$50, whichever is more. The following benefit recipients are eligible:

- (a) members who were first hired under the PERS before July 1, 1986, and their survivors;
- (b) members who were first hired under the PERS after June 30, 1986, and their survivors if they are at least age 65; and
- (c) all disabled members.



# TEACHERS' RETIREMENT SYSTEM

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### **TEACHERS' RETIREMENT BOARD**



Dorothy Wells, Chair Term Expires: 6/30/96



Cliff Koivisto, Vice Chair Term Expires: 1/31/94



Stephanie Winsor Term Expires: 6/30/96



Roger Aldrich Term Expires: 1/31/95

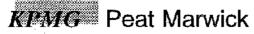


Marjorie Fowler Term Expires: 1/31/96

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### FINANCIAL SECTION

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**Certified Public Accountants** 

601 West Fifth Avenue Suite 700 Anchorage, AK 99501-2258

### Independent Auditors' Report

Division of Retirement and Benefits and Members of the Alaska Teachers' Retirement Board State of Alaska Teachers' Retirement System:

We have audited the accompanying statements of net assets available for plan benefits of the State of Alaska Teachers' Retirement System (Plan) as of June 30, 1993 and 1992, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Teachers' Retirement System as of June 30, 1993 and 1992, and the changes in net assets available for plan benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 15, 1993

KPM6 Rear Marwick



Member Firm of Klynveld Peat Marwick Goerdeler

# Statements of Net Assets Available for Plan Benefits (000s omitted)

### June 30, 1993 and 1992

	1993	1992
Assets:		
Investments, at market value:		
United States Government debt	\$ 539,308	424,620
Federal agency debt	24,311	22,846
Corporate bonds, notes and debentures	505,976	493,450
Commercial paper	66,921	-
Domestic equity pool	879,400	795,659
International equity pool	181,041	116,680
Real estate equities	<u>67,705</u>	<u>70,478</u>
Total investments	2,264,662	<u>1,923,733</u>
Loans and mortgages, at market value, net of allowance		
for loan losses of \$4,026 in 1993 and \$12,598 in 1992	<u>6,813</u>	<u>66,053</u>
Receivables:		
Contributions	8,691	12,998
Retirement incentive program	430	2,450
Accrued interest and dividends	20,430	19,116
Total receivables	29,551	34,564
On the send and hequivolants	7,8 <u>67</u>	12,498
Cash and cash equivalents	2,308,893	2,036,848
Total assets		<u> </u>
Liabilities:	953	1,840
Accrued expenses		-
Due to General Fund	1,322	3,070
Commerce settlement liability	115	4.040
Total liabilities	2,390	4,910
Net assets available for plan benefits	\$ 2,306,503	2,031,938

See accompanying notes to financial statements.

## Statements of Changes in Net Assets Available for Plan Benefits (000s omitted)

### Years ended June 30, 1993 and 1992

	1993	1992
Additions:		
Investment income:		
Net unrealized appreciation in market value of investments	\$ 48,863	54,770
Interest	83,290	80,606
Dividends	30,054	29,180
Net realized gains on sales	<u>118,169</u>	<u>56,346</u>
Total investment income before provision		er i
for losses on loans and mortgages	280,376	220,902
Provision for losses on loans and mortgages	3,200	(8,024)
Net investment income	<u> 283,576</u>	212,878
Contributions:		
Employers	58,130	55,953
Employees	46,497	44,338
Retirement incentive program - employers		1,118
Total contributions	104,627	101,409
	•	
Other	26	
Total additions	<u> 388,229</u>	<u>314.287</u>
		• . •
Deductions:		1 2
Benefits paid:	00 700	00.040
Retirement	92,703	88,648
Medical	12,089	10,111
Total benefits paid	104,792	98,759
Refunds to terminated employees	2,448	2,641
Administrative expenses	6,424	5,612
Total deductions	113,664	107,012
Net increase	274,565	207,275
Net increase	274,365	207,275
Net assets available for plan benefits at beginning of year	2,031,938	1,824,663
Net assets available for plan benefits at end of year	\$ 2,306,503	2,031,938
· · · · · · · · · · · · · · · · · · ·		

See accompanying notes to financial statements.

### Notes to Financial Statements (000s omitted)

June 30, 1993 and 1992

### (1) Description

The following brief description of the State of Alaska Teachers' Retirement System (Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

#### General

The Plan is the administrator of a defined benefit, cost-sharing, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. In determining the status of the Plan as a component unit of the State, the following elements were considered: financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

At June 30, 1993, the number of participating local government employers was:

School districts	54
Other	
Total employers	61

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 1992, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled	
	4,312
to future benefits	4,312
Current employees: Vested	5,422
Nonvested	3,816
Monvested	9.238
	9,200
·	13,550

#### **Pension Benefits**

Vested employees hired prior to July 1, 1990 are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest years salaries.

### Notes to Financial Statements (000s omitted)

The benefit related to all years of service earned prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for over twenty years of service subsequent to June 30, 1990 is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit, another person is eligible for benefits under a qualified domestic relations order or benefits are payable under the 1% supplemental contributions provision.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1990 may receive major medical benefits prior to age sixty-five by paying premiums.

#### **Death Benefits**

When benefits are payable under the 1% supplemental contribution provision, the employee's spouse is eligible for a spouse pension. If there is no spouse, a survivor's allowance may be payable to the employee's dependent child(ren). The amount of the pension or allowance is determined by the employee's base salary. Employees first hired after June 30, 1982 are not eligible to participate in this provision.

If an active employee dies from occupational or nonoccupational causes, the spouse may

receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average base salary at the time of death and the credited service that would have accrued had the employee lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision.

### **Disability Benefits**

If an employee with five or more paid up years of membership service is not eligible for normal retirement benefits and becomes permanently disabled, the employee is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled employee receives normal retirement benefits.

#### Effect of Pian Termination

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

### Notes to Financial Statements (000s omitted)

### (2) Summary of Significant Accounting Policies

### **Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting.

#### Valuation of Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments, other than real estate equities and loans and mortgages, are carried at market value to reflect their asset values. Market value is determined at the end of each month by the custodial agent. The agent's determination of market values involves, among other things, using pricing services or prices quoted by independent brokers.

Real estate equities are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

At June 30, 1993, loans and mortgages are stated at estimated market value as determined by management.

Historically, management of the loans and mortgages portfolio has provided an estimated allowance for loan losses to provide for potential credit losses. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge-offs and the aging of the portfolio. Loans and mortgages include approximately \$2,911 and \$8,303 for 1993 and 1992, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

During fiscal year 1993, mortgage loans with a principal balance of \$46,985 were sold through a competitive sale. Proceeds from the sale were \$45,226, resulting in a decrease in the previously recognized allowance for loan losses of \$1,759.

#### **Contributions Receivable**

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

### (3) Investments

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1993, the Plan's deposits and investments are categorized as follows:

### Deposits

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

### Notes to Financial Statements (000s omitted)

#### **Investments**

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are

held by the broker's or dealer's trust department or agent in the State's name.

Category 3 - Uninsured and unregistered investments for which the securi ties are held by the broker's or dealer's trust department or agent but not in the State's name:

Market

	0.4.			value and
	1 Cate	gory 2	3	carrying value
Deposits - cash	\$ 7,867	· •	_	- 7.867
Investments:	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			
United States Government debt	539,308		-	539,308
Federal agency debt	24,311	-		24,311
Corporate bonds, notes and debentures	505,976	-	-	505,976
Commercial paper	66,921	_	-	66,921
Domestic equity pool	879,400	-	-	879,400
International equity pool	181,041	-	-	181,041
Real estate equities	<u>67,705</u>		. <u>-</u> .	67,70 <u>5</u>
	\$ 2,272,529	_	-	2,272,529
			==	

During 1993 and 1992, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	1993	1992
United States Government debt	\$ 35,645	14,294
Federal agency debt	1,298	(277)
Corporate bonds, notes and debentures	25,686	23,492
Commercial paper	7	-
Domestic equity pool	(7,108)	20,663
International equity pool	5,397	2,695
Real estate equities	(4,503)	(13,655)
Loans and mortgages	<u>(4,359)</u>	(466)
	\$ 52,063	46,746

### Notes to Financial Statements (000s omitted)

The cost, market and carrying values of the Plan's investments at June 30, 1993 and 1992 are as follows:

	Cost	Market	Carrying value
1993:			
United States Government debt	\$ 451,038	539,308	539,308
Federal agency debt	22,210	24,311	24,311
Corporate bonds, notes and debentures	451,125	505,976	505,976
Commercial paper	66,914	66,921	66,921
Domestic equity pool	781,704	879,400	879,400
International equity pool	178,052	181,041	181,041
Real estate equities	91,639	67,705	67,705
Loans and mortgages, net of allowance			
for loan losses of \$4,026	<u>6.813</u>	<u>6,813</u>	<u>6.813</u>
	\$2,049,495	2,271,475	2,271,475
1992:			
United States Government debt	\$ 371,996	424,620	424,620
Federal agency debt	23,123	22,846	22,846
Corporate bonds, notes and debentures	464,286	493,450	493,450
Domestic equity pool	690,855	795,659	795,659
International equity pool	119,088	116,680	116,680
Real estate equities	89,908	70,478	70,478
Loans and mortgages, net of allowance for loan losses of \$12,598	<u>58,369</u>	66,053	66,053
	\$ 1,817,625	1,989,786	1,989,786

## Notes to Financial Statements (000s omitted)

The Commissioner of Revenue has the statutory authority to invest the monies of the Plan. This authority is delegated to investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances. Effective July 1, 1993, the Alaska State Pension Investment Board assumed statutory oversight of the Plan's investments.

#### (4) Pooled Investments

#### **Domestic Equity Pool**

The investment activity of all domestic marketable securities was consolidated with the domestic marketable securities of other State funds to form a domestic equity pool. The activity and the June 30, 1993 and 1992 balances of this domestic equity pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains and losses are allocated monthly to each participant on a pro rata ownership basis. All income earned is included in dividend income. At June 30, 1993 and 1992, the Plan's investment in the domestic equity pool is comprised of the following:

	1993	1992
Marketable securities,	\$ 823,387	738 692
Interest and dividends		1,863
Cash and cash		e e e e e e e e e e e e e e e e e e e
equivalents	52,862	<u>55.104</u>
	\$ 879,400 ———	/95,659

#### International Equity Pool

The Plan, along with the Public Employees' Retirement System, has formed an international equity pool comprised of investments in various types of international equity securities. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and iosses, and income received are allocated monthly to the two participating funds on a pro rata ownership basis.

The international equity pool at June 30, 1993 and 1992 is comprised of the following:

	1993	1992
Marketable securition	es, \$ 142,215	106.846
Cash and cash equivalents	38,826	
· · · · · · · · · · · · · · · · · · ·	\$ 181,041	116,680

### Notes to Financial Statements (000s omitted)

#### **Short-Term Investment Pool**

The Plan, along with three other State retirement systems, participates in a short-term investment pool formed during 1993. Each participant owns shares in the short-term investment pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term investment pool, comprised of repurchase agreements and cash, are included in cash and cash equivalents. Because the short-term investment pool consists of overnight investments, market value equals cost; therefore, there are no gains and losses and all investment income is from interest. Interest accruals are based on the Plan's pro rata share of the short-term investment pool and are credited to the Plan daily, thereby compounding daily.

At June 30, 1993, the Plan's investment in the short-term investment pool is comprised of the following:

Repurchase agreement	\$ 7,628
Cash	23
	\$ 7,651

Cash and cash equivalents at June 30, 1993 and 1992 are comprised of the following:

· •		
	1993	1992
Short-term investment poo	\$ - l <b>7,6</b> 51	8,565 -
Unsettled investment transactions Repurchase agreements	216	3,928 5
	\$ 7,867 	12,498

#### (5) Funding Status and Progress

The amount shown below as "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 7 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is the amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1992 are as follows:

- Actuarial cost method projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.
- b. Mortality basis 1984 Unisex Pension Mortality Table set forward one year for male members and set backward four years for female members.

### Notes to Financial Statements (000s omitted)

- c. Retirement age retirement rates based on the 1986-1990 actual experience.
- d. Discountrate 9% per annum, compounded annually, net of investment expenses.
- e. Health cost inflation:

Year	Per annum
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

- f. Salary scale increase of 6.5% for the first five years of employment and 5.5% per year thereafter.
- g. Cost of living allowance (domicile in Alaska)
   66% of those receiving benefits will be eligible to receive the cost of living allowance.
- h. Contribution refunds 100% of those employees terminating after age thirty-five who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
- i. Asset valuation five-year average ratio of actuarial and amortized cost values of the Plan assets. Prior to June 30, 1992, the actuarial value of the assets equaled the market value of the Plan's assets, except that fixed income investments were carried at amortized cost value. Effective June 30, 1992, the actuarial value of assets equals the market value as reported. Valuation assets cannot be outside of the range of amortized cost and actuarial values.

Turnover and disability assumptions are based upon the 1986-1990 actual experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

At June 30, 1992, the unfunded pension benefit obligation was \$200, as follows:

Net assets available for benefits	
as of June 30, 1992, at market	\$ 2,032
Pension benefit obligation:	
Retirees and beneficiaries	
currently receiving benefits	
and terminated employees	
not yet receiving benefits	1,111
Current employees:	
Accumulated employee	
contributions including	
allocated investment income	341
Employer-financed, vested	656
Employer-financed, nonvested	124
Total pension benefit obligation	n
as of June 30, 1992	2.232
Unfunded pension benefit	•
obligation as of	
June 30, 1992	\$ 200
Gallo 60, 1552	
	A

Due to a change in the asset valuation method, the unfunded pension benefit obligation at June 30, 1992 decreased \$62.3.

### Notes to Financial Statements (000s omitted)

#### (6) Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated Plan benefits was determined by William M. Mercer, Incorporated using the unit credit cost method and the following assumptions:

- a. Future salary was not considered.
- Future service was considered only to the extent that it would permit active Plan participants to become eligible for benefits attributable to service rendered prior to the date of determination.
- c. Assumptions used for mortality, withdrawal, retirement ages, disability and investment return are described in note 5 to these financial statements.

At June 30, 1992, the actuarial present value of accumulated Plan benefits was \$1,930 as follows:

·
\$ 1,012
99
718
<u>101</u>
\$ 1,930

The change in the actuarial present value of accumulated Plan benefits at June 30, 1992 follows:

Actuarial present value of accumulated Plan benefits as of June 30, 1991 Increase (decrease) attributable to: Additional benefits	\$ 1,750
accumulated, including actuarial experience Change due to decrease in	128
the discount period	153
Benefits paid to participants	(101)
Actuarial present value of accumulated Plan benefits as of June 30, 1992	\$1,930

#### (7) Contributions

#### **Employee Contributions**

Prior to January 1, 1991, employees contributed 7% of their base salary as required by statute. Effective January 1, 1991, employees contribute 8.65% of their base salary as required by statute. The employee contributions are deducted before federal tax is withheld. Eligible employees contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Employee contributions earn interest at the rate of 4.5% per annum, compounded annually.

## Notes to Financial Statements (000s omitted)

#### **Employer Contributions**

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method.

The Plan also uses the level percentage of payroll method to amortize the unfunded liability over a twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following:

	1993		1992		
	Contributions	As a percentage of covered payroll	Contributions	As a percentage of covered payroll	
Employer	\$ 58,130	12.20%	\$ 55,953	12.20%	
Employee	<u>46,497</u>	<u>9,76</u>	<u>44,338</u>	<u>9.67</u>	
	\$ 104,627	21.96%	\$ 100,291	<b>21.87</b> %	
Normal cost Amortization of unfunded	74,913	15.72	87,724	19.13	
actuarial accrued liability	29,714	6.24	12,567	2.74	
	\$ 104,627	21.96%	\$ 100,291	21.87%	

### Notes to Financial Statements (000s omitted)

Actuarial valuations for 1993 and 1992 were performed as of June 30, 1992 and 1991, respectively.

Significant actuarial assumptions used to compute contribution requirements are as of June 30, 1990. Several actuarial assumptions at June 30, 1990 are different from those used to compute the standardized measure of the pension benefit obligation discussed in note 5. For an explanation of the changes in actuarial assumptions between June 30, 1990 and June 30, 1992, see the notes to required supplementary information.

#### (8) Retirement Incentive Program

Legislation was passed in June 1989 and amended effective April 1, 1990, establishing a retirement incentive program. The program was available to state employees from October 1, 1989 through March 31, 1990, and all other employees from July 1, 1989 through December 31, 1989.

The retirement incentive program receivables represent the reimbursement due from employers participating in the program and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired.

The amount of reimbursement is the actuarial equivalent of the difference between the benefits the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan 21% of their annual compensation for the school year in which they terminated employment to participate in the programs. Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

The effect of the 1989 program on the pension benefit obligation was fully accounted for in the June 30, 1990 and 1991 actuarial valuations as the eligible employees retired.

#### (9) Historical Trend Information

Historical trend information for 1985 through 1992 designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type. Information prior to 1985 is unavailable.

Unfunded

### STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

### Required Supplementary Information Analysis of Funding Progress

(000s omitted)

Year ended June 30	Net assets available for Plan benefits	Pension benefit obligation	Percen- tage funded	Unfunded (assets in excess of) pension benefit obligation	Annual covered payroll (unaudited)	(assets in excess of) pension benefit obligation as a percentage of covered payroli
1985	\$ 866,333	\$ 1,042,551	83.1%	\$ 176,218	\$ 358,110	49.2%
1986	1,141,650	1,115,773	102.3	(25,877)	392,136	(6.6)
1987	1,303,464	1,210,909	107.6	(92,555)	348,606	(26.6)
1988	1,356,575	1,347,859	100.6	8,716	361,310	2.4
1989	1,545,877	1,557,643	99.2	11,766	431,445	2.7
1990	1,706,346	1,895,030	90.0	188,684	449,838	41.9
1991	1,824,663	2,075,405	87.9	250,742	422,655	59.3
1992	2,031,938	2,231,746	91.0	199,808	448,186	44.6

Analysis of the dollar amounts of net assets available for Plan benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for Plan benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the

stronger the Plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

### Required Supplementary Information Revenues by Source and Expense by Type (000s omitted)

#### Revenues by source

Year ended June 30	Employee contributions	Employer contributions	Interest, dividends and net unrealized gains on sales	Unrealized appreciation (depreciation) In market value including provision for losses and other	Total	Employer contribution as a percentage of annual covered payroli
1984	\$ 27,257	\$ 63,316	\$ 61,559	\$ (48,194)	\$ 103,938	19.4%
1985	29,176	68,826	74,171	78,418	250,591	19.2
1986	32,039	69.276	119,173	103,643	324,131	17.7
1987	34,159	58,177	143,692	(15,677)	220,351	16.7
1988	33,104	69,363	100,239	(75,566)	127,140	19.2
1989	31,888	47,348	125,170	65,243	269,649	11.0
1990	35,224	53,670	146,612	12,129	247,635	<b>1</b> 1.9
1991	40,059	57,982	127,524	(4,675)	220,890	14.1
1992	44,338	57,071	166,132	46,620	314,161	12.4
1993	46,497	58,130	231,513	52,089	388,229	12.2

#### Expense by type

	Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	Total
1984	\$ 27,792	\$ 3,257	\$3,094	\$ 1,605	\$ 35,748
1985	33,360	4,393	3,126	2,951	43,830
1986	38,476	4,424	3,311	2,603	48,814
1987	46,183	4,613	4,239	3,502	58,537
1988	60.939	5,040	3,798	4,252	74,029
1989	65,328	8,073	2,953	3,993	80,347
1990	71,134	9,713	2,896	3,423	87,166
1991	84,443	10,654	3,510	3,966	102,573
1992	88,648	10,111	2,641	5,612	107,012
1993	92,703	12,089	2,448	6,424	113,664
1444					

Contributions, including contributions under the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

## Cash Receipts and Disbursements (000s omitted)

Years ended June 30, 1993 and 1992

	1993	1992
Cash and cash equivalents at beginning of year	<u>\$ 12,498</u>	17,200
Add cash receipts: Contributions:		
Employer	60,280 <sup>⊚</sup>	54,285
Employee	48, <del>6</del> 53	43,121
Retirement incentive program - employer	2,020	7,951
Investment income	223,514	166,311
Other receipts		2,775
Total cash receipts	334,467	274,443
Less cash disbursements:		
Investments purchased	222,800	171,305
Benefit payments	104,792	98,760
Refunds	3,335	3,468
Administrative expenses	6,423	5,612
Other	1.748	<del>-</del>
Total cash disbursements	339,098	<u>279.145</u>
Cash and cash equivalents at end of year	\$ 7,867	12,498

See accompanying notes to required supplementary information.

## Administrative Expenses (000s omitted)

### Years ended June 30, 1993 and 1992

	1993	1992
Personal services:		
	\$ 786	776
Wages .	430	425
Benefits Other	2	22
Total personal services	1,218	1,223
Total personal services		11,220
Travel:		
Transportation	29	21
Per diem	18	16
Moving	· =	
Total travel	47	· <u>       38</u>
Contractual services:		
Data processing	224	125
Actuarial and benefits consulting	82	85
Communications	69	56
Legal	46	47
Other professional services	42	27
Advertising and printing	39	. 18
Auditing	14	13
Repairs and maintenance	12	7
Medical specialists	4	3
Rentals/leases	4	1
Transportation	1	1
Architectural	• -	1
Other services	8	<u> </u>
Total contractual services	<u>545</u>	390
Convolina-	21	17
Supplies  Mechings and aguipment	47	19
Machinery and equipment	4, <u>546</u>	3,92 <u>5</u>
Investment expense		
Total administrative expenses	\$ 6,424	5,612
TOTAL ACTION OF THE PROPERTY O		

See accompanying notes to required supplementary information.

### Notes to Required Supplementary Information

Years ended June 30, 1993, 1992, 1991, 1990, 1989, 1988, 1987, 1986, 1985 and 1984

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

The Plan's actuarial funding method for the years ended June 30, 1978 through June 30, 1984 was attained age normal. Effective July 1, 1984, the Plan adopted the projected unit credit actuarial funding method.

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

Effective July 1, 1990, the health care cost was changed from a flat 9% to the following graduations:

	Year	<u>Per annum</u>
	1992	12.5%
	1993	11.5
	1994	10.5
gar to see	1995	9.5
	1996	8.5
1997	and thereafte	r 7.5

Turnover, retirement and disability assumptions were revised based on actual experience in 1986 through 1990. The mortality tables were set forward one year for male members and set backward four years for female members; previously, the mortality table had been set back one and one half years for all members. The cost of living allowance was increased from 54% to 66% participation.

Effective June 30, 1992, the actuarial value of all assets equals market value; previously, fixed income investments were carried at amortized

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### **ACTUARIAL SECTION**

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NCORPORATED

April 1, 1993

State of Alaska
Teachers' Retirement Board
Department of Administration
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

#### **Actuarial Certification**

The actuarial valuation required for the State of Alaska Teachers' Retirement System has been prepared as of June 30, 1992 by William M. Mercer, Incorporated. The purposes of the report include:

- (1) a review of experience under the Plan for the year ended June 30, 1992;
- (2) a determination of the appropriate contribution rate for each employer in the System;
- (3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG Peat Marwick, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to the Board in October 1991.

The contribution requirements are determined as a level percentage of payroll, and reflect the cost of benefits accruing in FY93 and a 25-year rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of assets to liabilities increased from 85.7% to 89.7% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

One Union Square Suite \$200 600 University Street Seattle WA 98101 3137

206 292 7000

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#### WILLIAM M. MERCER

INCORPORATED

Teachers' Retirement Board April 1, 1993 Page 2

The valuation reflects a change in the determination of the actuarial value of the fixed income portion of the assets, from book value to full market value. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,

Brian R. McGee, FSA

Principal

BRM/JWJ/PLG/jls

Peter L. Godfrey, FIA Associate

Alaska Teachers' Retirement System

### Principle Results

Fundi	ng Status as of June 30:	1991	1992
	(a) Valuation Assets*	\$ 1,779,579	\$ 2,001,864*
	(b) Accrued Liability*	. •	
	i) Non-Medical Benefits	1,749,725	1,872,660
	ii) Total Benefits (including medical)	2,075,405	2,231,746
	(c) Funding Ratio, (a) / (b)		
	i) Non-Medical Benefits	101.7%	106.9%
	ii) Total Benefits (including medical)	85.7%	89.7%
*	In thousands.	. *	•
**	Reflects change in asset valuation method.		

Employer Contribution Rates for Fiscal Year:	1994	1995
(a) Normal Cost Rate	9.05%	8.57%
(b) Past Service Rate	6,54%	4.79%
(c) Total Contribution Rate	15.59%	13.36%
(d) Actuarial Projection Rate	12.00%	12.00%

#### **Actuarial Assumptions and Methods**

#### Valuation of Liabilities

A. Actuarial Method - Projected Unit Credit (no change). Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued liability is amortized over 25 years. Any funded surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The **Unfunded Liability** at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the **Past Service Cost**.

The **Normal Cost** is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

#### B. Actuarial Assumptions -

1.	Investment Return	9% per year, compounded annually, net of expenses.	
2.	Salary Scale	6.5% per year for the first five years of employment and $5.5%$ per year thereafter.	r
3.	Total Inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 5% annually.	j
4.	Health Cost Trend	FY92 - 12.5% FY93 - 11.5% FY94 - 10.5% FY95 - 9.5% FY96 - 8.5% FY97 and later - 7.5%	
5.	Mortality	1984 Unisex Pension Mortality Table, set forward one year for male	<del>)</del>

assumed to result from nonoccupational causes:

members and set backward four years for female members. All deaths are

6.	Turnover	Based upon the 1986-90 actual total turnover experience. (See Table 1).
7.	Disability	Incidence rates based upon the 1986-90 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.
8.	Retirement Age	Retirement rates based upon the 1986-90 actual experience in accordance with Table 3.
9.	Spouse's Age	Wives are assumed to be four years younger than husbands.
10.	Dependent Children	Benefits to dependent children have been valued assuming members who are not single have one dependent child.
11.	Contribution Refunds	100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
12.	C.O.L.A.	Of those benefit recipients who are eligible for the C.O.L.A., 66% are assumed to remain in Alaska and receive the C.O.L.A.
13.	New Entrants	Growth projections are made for the active TRS population under three scenarios:
		Pessimistic: 0% per year  Median: 1% per year  Optimistic: 2% per year
14.	Sick Leave	4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired.
15.	Expenses	Expenses are covered in the investment return assumption.

#### Valuation of Assets

Based upon the five-year average ratio between actuarial and book values of the System's assets. Prior to June 30, 1992, the actuarial value of assets equalled the market value, except that fixed income investments were carried at book value. Effective June 30, 1992, the actuarial value of assets equals the full market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG Peat Marwick. Valuation assets cannot be outside the range of book and actuarial values.

#### **Valuation of Medical Benefits**

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY93, the pre-65 monthly premium is \$310.80 and the post-65 premium is \$108.37, based on a total blended premium of \$226.90. For FY94, the pre-65 monthly premium is assumed to be \$346.54 and the post-65 premium is assumed to be \$120.83, based on a total blended premium of \$252.99. The FY93 rates and the pre-65/post-65 split were provided by Deloitte & Touche.

### Table 1 Alaska TRS

#### **Total Turnover Assumptions**

Select Rates of Turnover During the First 10 Years of Employment Ultimate Rates of Turnover After the First 10 Years of Employment

Year of Employment	Rate	Age	2S	Rate	
1	.26	20	-39	.03	
2	.24	40	+	.02	
3	.16				
4	.12		: .		
5	-11		•		
. 6	.10				
7	.09				
8	.09		. • •		
9	.09				
10	.09				

Table 3

Alaska TRS
Retirement Rates

	Age at	Retirement	
	Retirement	Rate	
	50	.10	
•	51	.07	
	52	.07	
	53	.07	
	54	.07	
	55	.16	
	56	.16	
	57	.16	
	58	.16	
	59	.13	
	60	.13	
	61	.13	
	62	.13	
	63	.13	
	64	.10	
	65	.47	
	66	.82	
	67	1.00	

For ages less than 50, teachers are assumed to retire two years after the earliest age they are eligible to retire.

### Table 2

#### Alaska TRS Disability Rates Annual Rates Per 1,000 Employees

Age	Rate	
20	14	
21	.14	
22	.14	
23	.15	
	.15	
 24	.15	
25 26	.15 .15	
26	.15	
27	.10	
28	.16	
 29	.16	
30	.16	
31	.17 .17	
32	. I f	
33	.25	
 34	,34	
35	.44	
36	.53	
37	.64	
38	.75 87	
 39	,07	
40	.99	
41	1.12	
42	1.25	
43	1.39	
 44	1.53	
45	1.68	
46	1.84	
47	2.00	
48	2.17	·
 49	2.34	
 50	2.52	
51	2.70	
52	2.89	
53	3.08	
54	3.29	
 55	3.49	
<sup></sup> 56	3.70	
56 57	3,92	
58	4.14	
59	4.37	
 60	4.61	
61	4.84	
62	5.09	
63	5.34	
64	5.60	

Schedule of Active Member Valuation Data				
Valuation Date	Number	Annual Payroll (000s)	Annual Average Pay	Percent Increase In Average Pay
June 30, 1992	9,238	\$448,186	\$48,515	2.2%
June 30, 1991	8,903	422,655	47,473	4.6
June 30, 1990	8,586	389,702	45,388	1.8
June 30, 1989	8,527	380,267	44,596	1.4
June 30, 1988	8,218	361,310	43,966	-1.7
June 30, 1987	7,797	348,606	44,710	.6
June 30, 1986	8,824	392,136	44,440	7.8
June 30, 1985	8,684	358,110	41,238	4.6
June 30, 1984	8,259	325,540	39,416	5.6
June 30, 1983	7,899	294,817	37,323	4.0

	Add	Added to Rolls		Removed from Rolls		Rolls - End of Year		Average	
Year Ended	No	Annual Allowances*	No.	Annual Allowances*	No.	Annual Allowances	Increase in Annual Allowances	Annual Allowance	
June 30, 1992	120	\$5,799,044	62	\$1,436,106	3,602	\$86,452,653	5.31%	\$24,001	
June 30, 1991	519	14,827,829	159	3,535,365	3,544	82,089,715	15.95	23,163	
June 30, 1990	208	6,181,779	122	2,648,864	3,184	70,797,251	5.25	22,235	
June 30, 1989	201	5,730,311	75	1,593,075	3,098	67,264,336	6.55	21,712	
June 30, 1988	639	16,668,442	43	856,302	2,972	63,127,100	33.42	21,241	
June 30, 1987	301	8,922,546	23	425,546	2,376	47,3 <b>1</b> 4,960	21.89	19,914	
June 30, 1986	189	3,685,188	113	2,079,652	2,098	38,817,960	4.31	18,502	
June 30, 1985	289	9,844,034	31	489,552	2,022	37,212,424	33,58	18,404	
June 30, 1984	192	3,214,991	140	2,194,640	1,764	27,857,942	3.80	15,792	
June 30, 1983	252	5,918,576	25	358,202	1,712	26,837,591	26.14	15,676	

Summary of Accrued and Unfunded Accrued Liabilities								
Valuation Date	Aggregate Accrued Liability (000s)	Valuation Assets (000s)	Assets as a Percent of Accrued Liability	Unfunded Accrued Liabilities (UAL)(000s)	Annual Active Member Payroll(000s)	UAL as a Percent of Annual Active Member Payroll		
June 30, 1992 <sup>(1)</sup>	\$2,231,746	\$2,001,864	89.7%	\$229,882	\$448,186	51.3%		
June 30, 1991 <sup>(2)</sup>	2,075,405	1,779,579	85.7	295,826	422,655	70.0		
June 30, 1990 <sup>(3)</sup>	1,895,030	1,662,242	87.7	232,788	389,702	59.7		
June 30, 1989 <sup>(1)</sup>	1,557,643	1,480,389	95.0	77,254	380,267	20.3		
June 30, 1988 <sup>(?)</sup>	1,347,859	1,331,905	98.8	15,954	361,310	4.4		
June 30, 1987	1,210,909	1,225,009	101.2	-	348,606	-		
June 30, 1986	1,115,773	1,040,173	93.2	75,600	392,136	19.3		
June 30, 1985(2)(4)	1,042,551	833,617	80.0	208,934	358,110	58.3		
June 30, 1984	804,018	674,382	83.9	129,636	325,540	39.8		
June 30, 1983	706,795	562,944	79.6	143,851	294,817	48.8		

Changes in Asset Valuation Method.

Change in Funding Method.

		So	olvency Test		2000 - 20		
	Aggrega	rate Accrued Liability For:			Portion of Accrued Liabilities Covered by Assets		
Valuation Date	(1) Active Member Contributions	(2) Inactive Members (000s)	(3) Active Members (Employer- Financed Portion) (000s)	Valuation Assets (000s)	3	2)	(3)
June 30, 1992 <sup>(1)</sup>	\$341,204	\$1,110,981	\$779,561	\$2,001,864	100%	100%	89.7%.
June 30, 1991 <sup>(2)</sup>	293,136	1,056,453	725,816	1,779,579	100	100	85.7
June 30, 1990 <sup>(3)</sup>	269,491	940,475	685,064	1,662,242	100	100	87.7
June 30, 1989 <sup>(1)</sup>	253,436	779,296	524,911	1,480,389	100	100	95.0
June 30, 1988 <sup>(2)</sup>	228,217	688,090	431,552	1,331,905	100	100	98.8
June 30, 1987	210,493	578,468	421,948	1,225,009	100	100	100.0
June 30, 1986	214,192*	426,333	475,248*	1,040,173	100.	100	93.2
June 30, 1985 <sup>(2)(4)</sup>	194,215*	419,694	428,642*	833,617	100	100	80.0
June 30, 1984	168,942*	341,441	294,635*	674,382	100	100	83.9
June 30, 1983	146,497*	319,629	240,669*	562,944	100	100	79.7

Changes in Asset Valuation Method.

Estimated

Change of Assumptions.

Change in Plan Provisions.

Change of Assumptions.
Change in Plan Provisions.
Change in Funding Method

#### Analysis of Financial Experience

# Change in Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience

Type of	Change in Contribution Rate During Fiscal Year						
Gain or Loss	92	91	90	89	88		
(1) Health Experience	-	-3.01%	-2.28%	3.06%	3.51%		
(2) Salary Experience	34%	20	49	45	67		
(3) Investment Experience	-	.70	-1.04	76	.84		
(4) Demographic Experience	59	.96	1.10	.65	-		
(5) Miscellaneous (6) Gain (or Loss) During Year From		<b>-</b> _	44	<u>.39</u>	<u>.40</u>		
Experience, (1) + (2) + (3) + (4) + (5)	93	-1.55	-2.27	2.89	4.08		
Non-recurring Changes							
(7) Contribution Rate Smoothing Method	-	1.21	-3.96	-	-		
(8) Projection Valuation Method	-1.36	-4.80	-	-	-		
(9) Asset Valuation Method	-1.30	-	-	-	-		
(10) Assumption Changes	<b>-</b> i	-2.51	-	-	-		
(11) Plan Changes		<u></u>	- <u>6.76</u>		<u> </u>		
Composite Gain (or Loss) During Year, (6) + (7) + (8) + (9) + (10) + (11)	-3.59% 	-7.65% ====	.53% ====	2.89%	4.08%		

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### INVESTMENT SECTION

# STATE OF ALASKA

#### DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 110400 JUNEAU, ALASKA 99811-0400 TELEPHONE: (907) 465-2300 FACSIMILE: (907) 465-2389

### Message from the Commissioner

emarkable achievement in a year of transition is the best way to describe this year's investment results for the Teachers' Retirement Fund (TRS). The investment portfolio earned 14.38% and placed in the top performance quartile of all public retirement systems in the nation. This was accomplished even though fiscal 1993 was a year in transition.

The fixed income portfolio earned over 15% for the year, a performance topping almost all employee retirement plans in the United States. Staff has consistently managed the fixed income portfolio with superior results. Over the last five years the portfolio earned 12.3%. This longer-term performance was also better than almost all employee retirement plans.

The largest asset class is fixed income. The second largest asset class is U.S. equity securities. Returns for both these asset classes exceeded their benchmarks by wide margins. The fixed income portfolio beat the *Lehman Government/Corporate Index* by almost two full percentage points and the equity portfolio exceeded the *S&P 500 Index* by over two percent. This is good news for beneficiaries and employers.

Returns in excess of the 9.0% actuarial rate, which was used to determine funded status and employer contribution rates, increase funded status and reduce employer contribution rates. Funding status is a measure of security to beneficiaries. Full funding is 100% and in general terms this is the point where total assets equal the present value of projected benefit payments. The change in actuarial assumptions, particularly in the area of health care costs, inflation, and investment earnings, makes funding status a moving target. For TRS, the funded rate is 90%. This is much higher than the average state pension fund. In lay terms, the TRS fund is healthy and sound.

There is more good news. The cost of managing the investment portfolio is low compared to an average fund the size of TRS. There are two key points in controlling cost: efficiency and effectiveness. Automation is a key component of cost control for the Treasury Division. The Division is highly computerized allowing staff to be very efficient in an environment of superior internal controls. Another major cost savings is achieved by managing the fixed Income portfolio in-house by a very small staff. This same staff also manages the debt portfolio for other state funds including the Public Employees' Retirement Fund. It is important to note that cost savings were accomplished without compromising prudent investment management standards.

The excellent returns of last year should not be viewed as a single event. Each year must be observed as part of a long-term plan. Pension benefits will be paid years into the future for those retired and those beginning their working career. The investment horizon should be commensurate with the benefit horizon. With this in mind, I initiated an asset allocation study and development of investment policies and objectives. The results of this effort, including an implementation plan, were adopted July, 1992. The plan is designed to position the fund for outstanding future performance within conservative risk standards. During the year, fixed income portfolio investment grade standards were articulated. Equity managers were evaluated and restructured. New U.S. equity managers were hired to provide style and market capitalization diversification; new international equity managers were hired for regional specialization; and equity managers were hired with a global mandate.

While we were transitioning to the new investment plan, we were also in the process of transferring control to an investment board. Legislation passed in 1992, and signed into law by Governor Walter J. Hickel, created an eight member board of trustees to assume fiduciary responsibility no later than July 1, 1993. This was a responsibility previously held by the Commissioner of Revenue. The transition went smoothly and efficiently. During the year we conducted several meetings including a three-day educational seminar. By July 1, the new trustees were ready and they assumed their fiduciary role. I was proud to turn over to the board a fund that has achieved superior results and is well positioned for the future.

I am confident the board will provide responsive and responsible investment management oversight. Beneficiaries, the State of Alaska as plan sponsor, and participating employers should be well served. I have participated with the board for almost nine months and I know the trustees are dedicated and hard working.

In conclusion, it is the staff—the men and women working for Treasury Division—that made it all happen. Their skill and dedicated efforts made it possible to realize our accomplishments. I personally extend my thanks and appreciation to them. And we should all be thankful that they will continue to serve as staff to the Alaska State Pension Investment Board.

Sincerely,

Darrel J. Rexwinkel

Commissioner

#### **ALASKA STATE PENSION INVESTMENT BOARD**



William A. Corbus
Chair
Appointed by the Governor
Term Expires: 1/1/95



Gail R. Oba Vice Chair Appointed by the Governor Term Expires: 1/1/96



Gary M. Bader PERS representative Term Expires: 12/30/94



Ross A. Kinney Appointed by the Governor Term Expires 1/1/97



Roxy A. McDonagh TRS representative Term Expires: 12/30/93



Merritt C. Olson TRS representative Term Expires: 12/30/95



J. P. "Pat" Weilington
PERS representative
Term Expires: 12/30/96



Darrel J. Rexwinkel Statutory representative

#### ORGANIZATION

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Darrel J. Rexwinkel

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Robert D. Storer

Investment Officers

Michael S. Cheung, CFA, Marketable Debt

Jeff Hassler, Real Estate

Deputy Commissioner

Laraine L. Derr

Comptroller

Mark W. Prussing, CPA

Cash Management

Vernon B. Voss

#### **Investment Consultants**

Dorn, Helliesen & Cottle Berkeley, CA

#### Domestic Equity Large Cap

Ark Asset Management Co., Inc. New York, NY

IDS Advisory Group

Minneapolis, MN Invesco MIM, Inc.

Atlanta, GA

MacKay-Shields Financial Corporation

New York, NY

Newbold's Asset Management, Inc.

Bryn Mawr, PA

#### Domestic Equity Small Cap

Capital Guardian Trust Co.

Los Angeles, CA

John McStay Investment Counsel

Dallas, TX

The Putnam Companies

Boston, MA

**RCM Capital Management** 

San Francisco, CA

#### **Tactical Asset Allocation**

Wells Fargo Nikko Investment Advisors
San Francisco, CA

#### **Domestic Equity Index**

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#### International Equity—Pacific Basin EX Japan

G.T. Capital Management San Francisco, CA

Wellington Management Co.

Boston, MA

#### International Equity—European

Citibank Global Asset Management New York, NY

#### International Equity—EAFE

J. P. Morgan Investment Management, Inc. London, England

#### Global Equity

Lazard Freres Asset Management New York, NY Miller, Anderson & Sherrerd

West Conshohocken, PA

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Hancock Realty Investors, Inc.

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JMB Institutional Realty Corporation

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Karsten Realty Advisors

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#### Global Master Custodian

State Street Bank & Trust Co. Boston, MA

#### Legal Counsel

Morrison & Foerster San Francisco, CA

#### The Economy in FY 1993

iscal Year 1993 was one of uneven growth. The Gross Domestic Product (GDP) grew at an average rate of 4.00% during the first two quarters of the year. This was the highest growth rate since the economy officially emerged from recession more than eighteen months ago. Consumer confidence was high and spending grew at a strong rate of 5.1% during the second quarter of the year.

Simultaneously, consumers were taking advantage of lower interest rates to pay off debt and refinance mortgages. This helped lower the consumer debt-service ratio which is the measure of consumers' debt payment relative to their disposable income. This ratio stood at 16.5% at the end of third quarter, down from 18.7% in the summer of 1991. Economists estimate that for each one percent drop in this ratio, consumers have an additional \$16 billion of disposable income. The expectation of growth in consumer spending led many economists to predict a strong and sustained recovery.

The election of a new President also reinforced optimism in the economy. After twelve years of divided government, Democrats finally control both the White House and Congress. The hope was that an end to political gridlock in Washington would benefit the economy.

Unfortunately, the strong economic momentum did not carry through to the second half of the fiscal year. The economic engine slowed as euphoria dissipated, and the economy only grew 1.2% during the final two quarters. Corporate America continued its restructuring and downsizing. Large scale layoffs became a regular feature of business news. U.S. industries remained skeptical about the strength of the recovery. Uncertainties about economic policies and health care proposals of the Clinton administration also discouraged the private sector from hiring additional workers.

The once mighty consumer brand name companies were especially hard pressed to restructure. Consumers have increased their purchases of generic

brand products in the last few years with the effect that premium brand companies are slowly losing their pricing power and market share. To stay competitive, these firms have laid off workers and lowered prices for their products and services.

The consumer sentiment level, which had briefly surged to 90 immediately after the elections, declined continuously in the second half of FY 1993 and closed out the year at 81. Consumer spending attained a lackluster annual growth rate of only 1.2% during the third quarter of the year, a big drop from the 5.1% rate of the second quarter. Consumers, like businesses, were uncertain about the employment picture and forthcoming tax changes.

The rate of inflation remained low during the last twelve months. The weak job market restrained wage and salary growth while corporations continued their attempt to control health care costs. Other indicators also painted a benign inflation picture. The Consumer Price Index (CPI) increased at a relatively low rate of 3.00% for the fiscal year. The Journal of Commerce Commodity Index closed out the year at 95.5, down from the year's beginning level of 99. West Texas Intermediate Crude Oil finished the year at \$19.20 per barrel, down from \$20.75 of the previous year.

Despite the steady reduction in short-term interest rates over the last two years (to the lowest level in 25 years), the economy only grew at a sub-par rate of 2.6% in FY 1993. The Federal Reserve Bank lowered the short-term interest rates in September and remained in a neutral position for the rest of the year. Some people argued that the slow recovery justified another ease in interest rates by the Federal Reserve Bank. Other people argued that the Federal Reserve Bank should maintain its commitment to fight inflation.

The neutral monetary stance of the Federal Reserve Bank has helped short-term interest rates remain at record low levels. Concurrently, concern about future fiscal stimulation by Congress (the \$16 billion fiscal stimulative package) and the budget deficit package caused long-term rates to stay high. The difference in interest rates between a two-year treasury note and a thirty-year treasury bond reached a record spread of 3.65% in October and closed out the year at 2.67%.

Looking forward, there are several issues that could strongly influence the future state of the economy and the capital markets. These include health care reform, the North America Free Trade Agreement (NAFTA), the General Agreement on Tariffs and Trade (GATT), and monetary policy of the Federal Reserve Board.

The Clinton Administration hopes health reform will eventually lower labor costs and improve the competitiveness of U.S. industries. If NAFTA and GATT are adopted, these agreements are expected to eliminate many trade restrictions and lower tariffs. This should lead to the growth of global economy and the continued trend of low inflation. Federal Reserve monetary policy will be closely monitored to determine its affect on the cost of capital for U.S. industries, the shape of the yield curve, and the valuation level of the stock market.

#### INVESTMENT OVERVIEW

iscal Year 1993 began with the acceptance of an asset allocation study performed by the consulting firm of Dorn, Helliesen and Cottle for the Teachers' Retirement System (TRS). Revenue Commissioner Darrel J. Rexwinkel had initiated the study to create a set of guidelines that would improve the portfolio's performance and minimize market risk.

Concurrent with the asset allocation study, Dorn, Helliesen and Cottle assisted the Commissioner and staff in developing and implementing investment policies.

On July 8, 1992, the Commissioner, Deputy Commissioner, and Chief Investment Officer signed into effect the asset allocation and investment guidelines. Implementation of the policies began with a review and evaluation of each Domestic Equity Portfolio manager's style and historical performance. The review indicated the need for greater diversification, and a realignment of managers was effected.

The performance of the Fixed Income Portfolio, managed internally by Treasury staff, was outstanding with returns for the year of 15.11% which exceeded the benchmark *Lehman Brothers Government/Corporate Index* by 2%. The performance ranked in the top 13 percentile of all funds in the nation.

The Real Estate Section can also look back on the year with satisfaction, having completed a bulk sale of the Mortgage Portfolio. The sale was accomplished at very competitive market prices. Proceeds of the sale were used to purchase other assets that should, over the long-term, add value and increase the liquidity of the portfolio.

For Fiscal Year 1993, total returns for the Teachers' Retirement System were 14.38%. These returns were sufficient to rank the performance in the top 25 percentile of public retirement systems in the country. This performance was verified by the Department of Revenue's independent performance measurement consultant, Callan Associates, Inc.

#### **Equities**

The implementation of the Asset Allocation Policy began with a thorough review of the Domestic Equity Portfolio that included an evaluation of each equity manager's style and historical performance. As a result of the review, one manager was dismissed, and it was determined that the total equity portfolio was biased toward large capitalized growth stocks (companies with over \$1 billion in assets). This indicated the need for greater style diversification.

With the assistance of the firm of Dorn, Helliesen and Cottle, staff initiated searches to find equity managers with expertise in managing portfolios consisting of companies with smaller capitalization (less than \$1 billion in assets). More than 70 equity management firms were analyzed and of these, six were invited to make presentations to the Commissioner and Treasury staff. Four managers were selected and funded in the fall of 1992. The specialties of these firms split evenly between a style bias for value companies, whose stocks are considered underpriced, and a style bias for growth companies, whose earnings are expected to increase.

Management of the Domestic Equity Portfolio was further diversified by selecting and funding two equity managers who employ large capitalization value style bias. Another manager was hired who uses a "tactical asset allocation" style. This is a method of analyzing the valuations of the equity and bond markets and adjusting the market exposure toward the asset class that adds the greatest value.

With the Domestic Equity Portfolio re-balanced, attention was directed toward the International Equity Portfolio. The existing international portfolio consisted of two managers with a mandate to outperform the *Morgan Stanley Capital International Europe, Australia, and Far East Index* (EAFE), the benchmark index for international investments.

It was decided to retain one of the managers with an EAFE mandate and to assign the other manager a

portfolio of European equities. An existing domestic equity manager became a "global manager" with an expansion into international equities. Another global manager was hired to help oversee investments in international and domestic stocks. Additionally, two Pacific Basin (excluding Japan) managers were hired.

To round out the international equity allocation plan, the Alaska State Pension Investment Board (ASPIB) will conduct a search during fiscal year 1994 for one or more firms to manage emerging markets. Management selection and funding should be concluded by January, 1994.

#### **Equities Performance**

For the quarter ending September 30, 1992: Growth stocks added the most value to the domestic equity market. Stocks with the highest price/earnings ratios were good performers, regardless of their size. Despite the decline in value suffered by the U.S. dollar rise, international equities had a return of 1.5% for the quarter, as measured by the EAFE index. The Japanese and Swiss equity markets were the best performers with returns of 13.6% and 12.3% respectively.

For the quarter ending December 31, 1992: Small capitalization stocks were the strongest performers in the domestic equity market. This sector of the market added double digit returns versus the larger capitalization stock index (S&P 500) of 5.1%. Low inflation and renewed signs of increasing consumer confidence helped propel the domestic equity market. International equities fell 3.9% for the same period. Both Europe and Pacific regional equity markets had negative returns. Europe declined 4.9% and the Pacific region declined by 2.8%. These regions had negative returns due to continuing signs that Europe and the Pacific regions were in a recession.

For the quarter ending March 31, 1993: Poor performance from the consumer sector of the equity market inhibited returns. This stemmed in part from bad weather in many parts of the country, which kept shoppers home, and from smaller tax refunds during the quarter, contributing to the poor performance of this sector. During the period, smaller capitalization

stocks modestly outperformed the larger capitalization stocks. Led by Japan, with returns of 18.6%, the international equity market returned 12%. Investors also profited by a weakened U.S. Dollar during this period. The returns for international equities was 8.5% in local currencies.

Final quarter, ending June 30, 1993: Early fears of inflation were quieted as economic growth failed to keep pace with expectations. The sluggish economy and the strong chance of higher taxes made consumers cautious as they sought low-priced generic goods. Makers of brand-name products in the consumer non-durable sector suffered with negative returns. The apparel (-19.1%), tobacco (-18.7%) and retail (-8.5%) industries were particularly affected.

During this same period, the international equity market provided double digit returns of 10.1% for the second quarter in a row. Japan (19.4%), Hong Kong (12.8%) and Italy (22.2%) were the best performing markets during this period.

Performance of equity managers for Fiscal Year 1993: The aggregate performance of both domestic and international equity managers exceeded the median performance of managers in the Callan Associates' database. The Domestic Equity Portfolio had returns of 15.67%, which exceeded the benchmark S&P 500 Index (13.58%) by over 2%. While out-performing most active managers, the International Portfolio under-performed the EAFE Index (8.44% versus 20.28%) because one manager limited investment exposure to the Japanese stock market. The Japanese stock market had returns in excess of 40%.

The restructuring of the Domestic and International Equity Portfolios should enhance future performances. Risk will also be reduced due to improved style diversification.

#### **Fixed Income**

The Teachers' Retirement System's (TRS) \$1.137 billion of fixed income investments are managed internally by a staff of three. During Fiscal Year 1993 the fixed income investments produced outstanding returns. The portfolio was constructed to take

advantage of several trends in the economy while avoiding several trouble spots.

Fiscal 1993's fixed income returns were measured against both the *Lehman Government Corporate Index* and the Callan Associates' universe of fixed income managers. While Fiscal 1993's returns were excellent, the 3 year and 5 year returns have been outstanding. These returns were produced by a strategy designed for consistent long-term earnings with limited risk. The strategy is based on three principles.

First, investing is a long-term undertaking. Therefore, long-term trends, objectives, and risk/return analysis should guide the process. The long-term focus should not be blurred by short-term opportunities or trends.

Second, investment effort should be focused where the long-term risk return relationship is most advantageous. Our research found that intermediate corporate and government bonds (5 to 10 year maturity) have, since 1926, provided approximately half a percent greater return. Our study also found that these superior returns were achieved with less risk. Consequently, investments are focused on intermediate corporate and government bonds.

Diversification and risk control make up the third element of investment strategy. The corporate bond portfolio is restricted to investment grade bonds. There are no "junk bonds" in the portfolio. TRS will not purchase more than 10% of any individual issue and no individual issuer's debt will comprise more than 5% of the total portfolio. These and other restrictions preserve the liquidity of the portfolio and reduce the risk that one company's trouble will significantly affect the entire portfolio.

During Fiscal 1993 there were several key economic and market factors that affected the portfolio's return. Subdued inflationary pressure and the economy's erratic and weak performance resulted in lower interest rates along the entire maturity spectrum. These lower rates induced many home owners to refinance their mortgages, which resulted in poor returns within the mortgage backed securities markets. Many fixed income managers reduced their investments in mortgaged backed securities and bought additional U.S. Treasury securities. The

U.S. Treasury announced a change in the maturity mix of the securities it will auction in the future. This will reduce the supply of longer maturities and increase the supply of short-term securities. The net results were a lower, flatter yield curve and better returns for longer maturity bonds.

The slowly improving economy helped reduce the required credit premium on corporate bonds. As a result, corporate bonds had better performance than similar U.S. Treasury bonds.

The TRS portfolio had a slightly longer maturity and a greater concentration in high grade corporate bonds than the *Lehman Government Corporate Index*. It is these two characteristics that gave the portfolio its return advantage over the index.

#### **Real Estate Equities**

Real estate equities consist of holdings in seven commingled funds managed by nationally recognized real estate investment advisors. The market value of these holdings declined from \$118.0 million in FY 1992 to \$114.3 million in FY 1993.

The commingled funds total return improved substantially from -11.8% in FY 1992 to -0.9% in FY 1993. While the income component increased from 5.3% to 6.6%, the greater change was in the appreciation component that improved from -17.1% to -7.6%.

The -0.9% total return compares favorably with the NCREIF Index of -3.66%. Callan's 150 fund performance database median reflected a total return of 0.55.

While improvements in total returns have been achieved, our commingled funds have not yet reverted to providing positive returns that were common in the early and mid 1980s. What should be noted, however, is that the income component of the total return is positive and improving. The improvement is signaling that the rate of real estate value loss is declining.

Overall, real estate values appear to be stabilizing.

Apartments have lead all other real estate classes in recovery. Pension funds, private investors and Public Real Estate Investment Trusts (REITs) have

been very active in the buy side of the market. The result has been substantial downward pressure on initial yields with more product coming on the market because of higher pricing.

Industrial property values have been buffeted by more negative factors than any other major real estate class. Over-building, the real estate recession, fundamental production and distribution system changes, as well as defense cut backs, have affected values.

Retail properties were negatively affected as disposable income declined and buyers postponed large ticket purchases. With continued low public confidence in the near term economic recovery, retail sales recovery continues to be slow. Properly developed and located shopping centers have not been affected as dramatically as other retail property types. The office market, because of severe overbuilding and tenant downsizing, continues to be troubled.

Most observers expect a gradual recovery of the real estate market by end of the decade. Over-building and projected slow nationwide recovery are the most often cited reasons for the sluggish growth.

The recent value losses and slow growth scenario have not produced a flood of aggressively priced quality properties from distressed sellers (i.e.: insurance companies, commingled funds, banks). There appears to be a great deal of capital available for quality, investment grade real estate as many funds have unfilled real estate asset allocations. It is also reported that more pension funds are becoming involved with real estate as available returns are improving in certain classes and many locations.

Because of heavy weighting towards apartments and high quality retail, the PERS commingled fund investments should continue to see gradual increased income and total returns as the economic recovery continues.

## Investment Summary Year Ended June 30, 1993 (000s omitted)

	6/30/92 Book Value	6/30/92 Market Value	Reinvested	Maturities, Sales and Amortization	6/30/93 Book s Value	6/30/93 Market Value	% Total Market
Marketable Debt Securit	laa						
		ACA BOA	246,794	132,106	451,038	539,308	23.74%
U.S. Government Debt	\$ 371,995	424,620		5,343	22,210	24,312	1.07
Federal Agency Debt	22,043	22,846	6,809	5,343	22,210	24,012	1.07
Mortgaged Backed							
Federal Securities		-	-	400.000	454 405		00.00
Corporate Debt	464,286	493,450		132,883	451,125	505,976	22.28
Commercial Paper	-	-	177,420	110,500	66,914	66,920	2.95
Equity Securities							:
Domestic Equity Pool	690,855	795,659	124,573	40,832	781,704	879,400	38.71
International Equity Pool	119,087	116,680	64,361	-	178,052	181,041	7.97
Real Estate							:
Mortgage Loans,							
Net of Allowance	58,369	65,927	8,617	67,731	6,813	6,813	0.30
Real Estate Equity	30,500	40,027	0,011	<b>U</b> 1,	5,575	*1*.*	:
	90.000	70.479	- 3.208	<u> 5,981</u>	91,639	67,705	2.98
Investments	<u>89,908</u>	70,478	3,208	<u> </u>		01,7.00	
Total Investments	\$1,816,543	1,989,660	777,191	495,376	2,049,495	2,271,475	100.00%
							<del></del>

## Schedule of Investment Results Fiscal Years Ended June 30

						Annua	lized
	1989	1990	1991	1992	1993	3 Year	5 Year
Total Fund TRS CPI	14.19% 4.85	10.15% 4.68	7.05% 4.69	11.17% 3.09	14.38% 2.82	10.82% 3.44	11.35% 4.00
U.S. Common Stock Returns TRS Domestic Equity S&P 500	18.02 20.53	16.50 16.41	5.87 7.41	11.10 13.45	15.67 13.58	10.97 11.44	13.46 14.19
International Stock Returns TRS International Equities Morgan Stanley Capital Internt'l EAFE	9.62 9.52	16.28 3.26	-8.63 -11.53	7.87 -0.64	8.4 <b>4</b> 20.28	2.24 1.87	6.38 3.64
Domestic Fixed Income TRS	14.21	6.95	10.19	15.14	15.11	13.45	12.27
Lehman Brothers Government/Corporate	12.34	7.11	10.21	14.17	13.15	12.50	11.37
Real Estate Equity TRS NCREIF Index	5.36 6.22	-6.32 1.46	-12.11 -6.08	-6.24 -4.60	-0.93 -3.66	-8.43 -3.94	-2.81 0.40

# Schedule of Investment Management Fees Year Ended June 30, 1993

Investment Advisors	
Dorn, Helliesen & Cottle	\$55,834
Performance Measurement	
Callan Associates, Inc.	21,008
SEI Funds Evaluation Services	8,200
The WM Company	2,151
Real Estate Consultants	
Institutional Property Consultants	11,000
Domestic Equity Managers	
Ark Asset Management Co., Inc.	452,799
Capital Guardian Trust Co.	70,399
Fred Alger Management	58,377
IDS Advisory Group	345,596
Invesco MIM, Inc.	230,423
McKay-Shields Financial Corp.	43,178
John McStay Investment Counsel	194,540
Newbold's Asset Management, Inc.	59,597
The Putnam Companies	160,928
RCM Capital Management	142,819
State Street Global Asset Management	102,092
Tactical Asset Allocation Managers	
Wells Fargo Nikko Investment Advisors	156,335
Global Equity Managers	
Lazard Freres Asset Management	32,793
Miller, Anderson & Sherrerd	441,819
International Equity Managers	
Citibank Global Asset Management	273,640
G.T. Capital Management	11,712
J.P. Morgan Investment Mgt., Inc.	277,555
Wellington Management Co.	<u>14,885</u>

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# STATISTICAL SECTION

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		System	ı Membership		
Year	Active	Retirees & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total
1983	7,899	1,712	430	1,037	11,078
1984	8,259	1,764	509	914	11,446
1985	8,684	2,022	335	1,093	12,134
1986	8,824	2,098	481	869	12,272
1987	7,797	2,376	777	1,529	12,479
1988	8,218	2,972	408	938	12,536
1989	8,527	3,098	508	943	13,076
1990	8,586	3,184	816	985	13,571
1991	. 8,903	3,544	645	1,003	14,095
1992	9,238	3,602	710	1,057	14,607
:					

	Retiree Average	Age and Benefits	
Year	# Retirees	Average Age	Average Monthly Benefit
1983	1,712	62.60	\$1,306
1984	1,764	63.17	1,316
1985	2,022	62.75	1,534
1986	2,098	63.18	1,542
1987.	2,376	62.83	1,659
1988	2,972	61.41	1,770
1989	3,098	61.85	1,812
1990	3,184	62.45	1,853
1991	3,544	61.64	1,930
1992	3,602	61.97	2,000

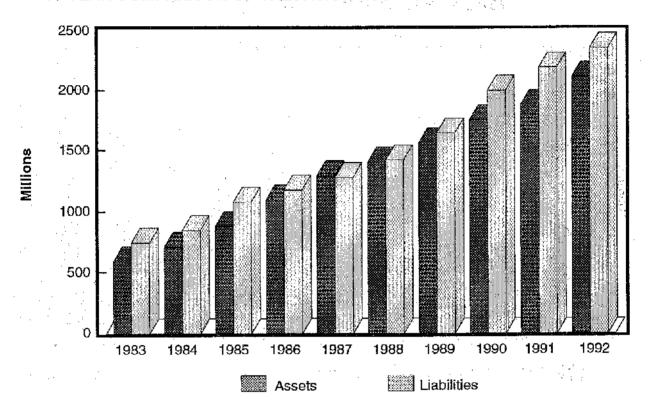
		Benefit Recipier	nts By Type of E	Benefit	
Year	Service	Surviving Spouse	Survivor	Disability	Total
1984	1,627	40	37	60	1,764
1985	1,855	64	38	65	2,022
1986	1,922	69	34	73	2,098
1987	2,194	70 :	32	80 .	2,376
1988	2,760	85	36	91	2,972
1989	2,870	103	31	94	3,098
1990	2,948	108	31	97	3,184
1991	3,322	125	1	96	3,544
1992	3,352	150	2	98	3,602

		Benefit P	ayments By	Type of Bene	fit	
Year	Service	Surviving Spouse & Survivor	Disability	COLA )	PRPA <sup>z</sup>	Total
1984	\$20,181,659	\$ 996,225	\$1,178,004	\$1,413,005	\$4,022,978	\$2 <b>7,7</b> 91,871
1985	23,974,460	960,098	1,189,528	1,669,673	5,565,559	33,359,318
1986	27,581,389	1,046,533	1,342,479	1,941,998	6,563,789	38,476,188
1987	33,441,310	1,063,663	1,547,393	2,391,373	7,739,475	46,183,214
. 1988	46,817,658	1,076,855	1,976,381	3,477,416	7,590,508	60,938,818
1989	49,445,233	1,272,052	2,191,767	3,568,587	8,792,729	65,270,368
1990	53,296,432	1,527,840	2,347,164	3,820,411	10,141,652	71,133,499
1991	65,275,381	1,531,023	2,323,635	4,662,680	10,650,778	84,443,497
1992	67,502,058	1,667,998	2,451,418	4,583,471	12,443,444	88,648,389

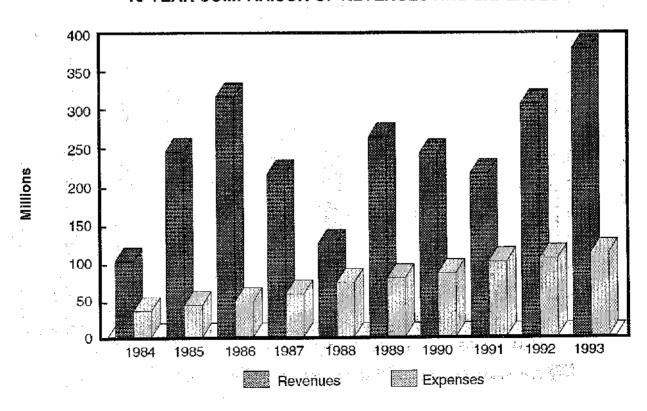
Cost of Living in Alaska

<sup>&</sup>lt;sup>2</sup> Post Retirement Pension Adjustment (Cost of Living Allowance)

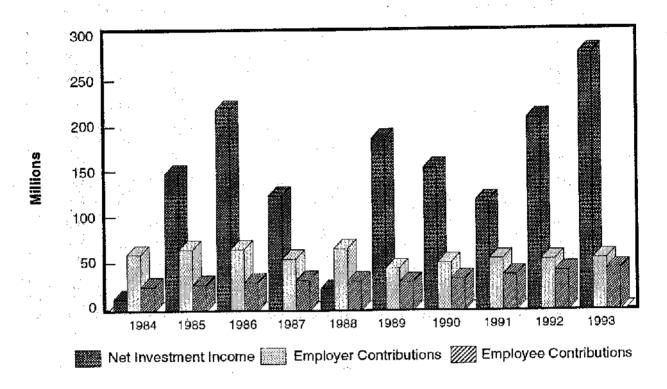
### 10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES



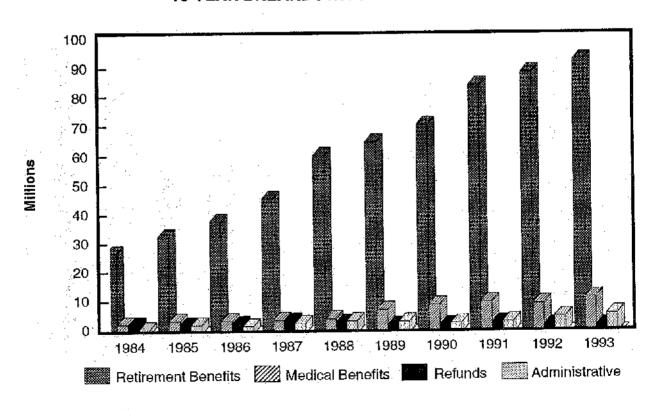
## 10-YEAR COMPARISON OF REVENUES AND EXPENSES



## 10-YEAR BREAKDOWN OF REVENUES BY SOURCE

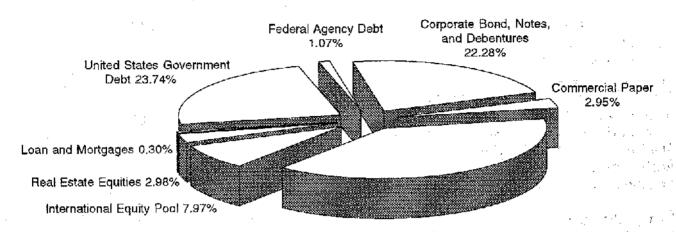


## 10-YEAR BREAKDOWN OF EXPENSES BY TYPE



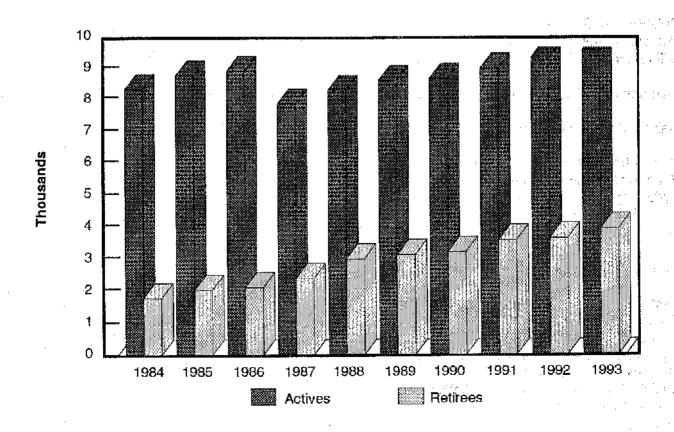
#### INVESTMENT PORTFOLIO

Year Ended June 30, 1993



Domestic Equity Pool 38.71%

#### 10-YEAR COMPARISON OF ACTIVES AND RETIREES



## PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES FISCAL YEAR 1993

Employer	Contribution Percentage
Adak Region School District Alaska Department of Education Alaska Gateway School District Alaska, University of Alaska Geophysical Institute, University of Alaska State Legislature	12.00% S
Aleutian Region School District Aleutians East Borough School District Anchorage School District Annette Island School District	A M E
Bering Strait School District Bristol Bay Borough School District Chatham School District	O R
Chugach School District Copper River School District Cordova Public Schools Craig City School District	L E M
Delta-Greely School District Denali Borough School District Dillingham City School District	P L O Y
Fairbanks North Star Borough School District	R S
Galena City School District  Haines Borough School District  Hoonah City School District  Hydaburg School District	
Iditarod Area School District	
Juneau School District, City and Borough of	
Kake City School District Kashunamuit School District Kenai Peninsula Borough School District Ketchikan Gateway Borough School District Klawock City School District	

Kodiak Island Borough School District

Kuspuk School District

## PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES FISCAL YEAR 1993

Employer (continued)	Contribution Percentage
Lake and Peninsula School District Lower Kuskokwim School District Lower Yukon School District	12.00%
Matanuska-Susitna Borough School District	
National Education Association - Alaska Nenana Public Schools Nome Public School North Slope Borough School District Northwest Arctic Borough School District	S A M E
Pelican School District Petersburg Public Schools Pribilof School District	F O R
Saint Mary's School District Sitka School District Skagway City School District Southeast Island School District Southeast Regional Resource Center Southwest Region Schools Special Education Service Agency	A L L E M P L O
Tanana City School District	Y E
Unalaska School District	R S
Valdez City Schools	
Wrangell School District	
Yakutat City School District Yukon Flats School District Yukon-Koyukuk School District	

Yupiit School District

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**PLAN SUMMARY** 

## **Plan Summary**

#### (1) Effective Date

June 30, 1955, with amendments through June 30, 1993. Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the TRS before July 1, 1990, are eligible for different benefits than members hired after June 30, 1990.

#### (2) Administration of Plan

The Commissioner of Administration is responsible for administering the System. The Teachers' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the System. The Alaska State Pension Investment Board is responsible for managing and investing TRS funds. The Attorney General represents the System in legal proceedings.

#### (3) Employers included

There are 61 employers participating in the TRS.

#### (4) Members Included

TRS membership is mandatory for

- full-time and part-time teachers, school nurses, and other employees in positions requiring teaching certificates;
- (b) the Commissioner and certificated supervisors employed by the Alaska Department of Education in permanent positions requiring teaching certificates;
- (c) University of Alaska full-time and part-time teachers, and full-time

administrative employees in positions requiring academic standing (employees participating in the University of Alaska's Optional Retirement Plan are not covered by the TRS); and

(d) members on approved sabbatical leave under AS 14.20.310.

#### (5) Credited Service

Members receive one year of credit if they work at least 172 days during a school year. Members working less that 172 days receive fractional credit based on the number of days worked. Part-time members receive half-time credit for each day worked.

Members may claim other types of service, including outside teaching, military, Alaska Bureau of Indian Affairs, Alaska Territory, elected official, leave of absence without pay, unused sick leave, and service that was not creditable at the time it was performed.

Members receiving TRS disability benefits continue to earn TRS credit while disabled.

## (6) Employer Contributions

TRS employers contribute the amount required, in addition to members' contributions, to fund TRS benefits.

#### (7) Member Contributions

Members are required to contribute 8.65% of their base salary. Members' contributions are deducted from gross wages before federal income taxes are withheld. Members hired before July 1, 1982, who participate in the supplemental contributions provision are required to contribute an additional 1% of

(Continued)

## Plan Summary

their base salary (see *Death Benefit* below). Member contributions are required for most types of claimed service. Members' contributions earn 4.5% interest, compounded annually on June 30.

Terminated members may receive refunds of their member contribution accounts, which includes their mandatory contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies and valid qualified domestic relations orders.

Refunded accounts and the corresponding TRS service may be reinstated upon reemployment in the TRS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until they are paid in full or the member retires.

#### (8) Retirement Benefit

The normal benefit is calculated by multiplying the member's average base salary (ABS) times total TRS service times the appropriate percentage multiplier. The ABS is determined by averaging the three highest, annual base salaries. The TRS pays a minimum benefit of \$25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers are 2% for the first 20 years of service and 2.5% for all remaining service, except that service before July 1, 1990 is calculated at 2%.

Members are eligible for normal retirement at age 60 and early retirement at age 55 (if first hired before July 1, 1990, normal retirement is age 55 and early retirement is age 50). To retire members must have:

- (a) eight years of membership service;
- (b) 15 years of TRS service, if the last five years are membership service and the member was first hired before July 1, 1975;
- five years of membership service and three years of Alaska Bureau of Indian Affairs (BIA) service;
- (d) 12 years of combined part-time and full-time membership service; or
- (e) two years of membership service if the member is vested in the Public Employees' Retirement System.

Members may also retire at any age with:

- (a) 25 years of service if the last five years are membership service;
- (b) 20 years of membership service;
- (c) 20 years of combined membership and Alaska BIA service if the last five years are membership service; or
- (d) 20 years of combined part-time and full-time membership service.

Members may choose between the normal, early, and joint and survivor (50%, 66-2/3% or 75%) options. Actuarial reductions to benefits are required under all options, except for normal retirement.

Retirement benefits will be actuarially reduced when there is an indebtedness remaining at retirement. However, TRS

(Continued)

#### Plan Summary

service used to satisfy the minimum service requirements for retirement must be paid in full.

#### (9) Reemployment of Retired Member

Retirement benefits are suspended while retired members are reemployed under the TRS. During reemployment, members earn additional TRS service and contributions are withheld from their wages.

Members who retired under the Retirement Incentive Programs (RIPs) who return to employment under the TRS, Public Employees' Retirement System (PERS), or the University of Alaska's Optional Retirement Plan will:

- (a) forfeit the three years of incentive credits that they received.
- (b) owe the TRS 110% of the benefits that they received under the RIP, including any costs for health insurance, and excluding amounts that they paid to participate.
- (c) be charged 7% interest on amounts owed from the date of reemployment until the indebtedness is paid in full or they retire again. Any balance remaining at retirement will result in an actuarial reduction to the member's future benefits.

#### (10) Disability Benefit

TRS disability benefits are paid until the member dies, recovers or becomes eligible for normal retirement. Disabled members continue to earn TRS service until their normal retirement date. When eligible for normal retirement, disability benefits termi-

nate and the member is appointed to normal retirement.

Monthly benefits are equal to 50% of the member's base salary on the date of disability. An additional 10% is paid for each dependent child up to a maximum of 40%.

#### (11) Death Benefit

When a member dies, benefits are payable under the occupational or nonoccupational death provisions, unless a survivor's allowance or spouse's pension is payable under the supplemental contributions provision.

Occupational Death. When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse. The pension equals 40% of the member's gross monthly compensation on the date of death or disability, if earlier. If there is no spouse, the pension is paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit based on the member's average salary on the date of death or disability and service, including service that accrues from the date of the member's death or disability to the normal retirement date.

Nonoccupational Death. When an active, vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum payment. The monthly benefit is calculated on the member's average salary and TRS service at the time of death.

Upon the death of a member who has less than one year of service, the designated

(Continued)

## **Plan Summary**

beneficiary receives the member's contribution account, which includes mandatory contributions, indebtedness payments, and interest earned. The beneficiary also receives \$1,000, plus \$100 for each year of membership service (not to exceed \$3,000), if the member has more than one year of TRS service, but less than eight years. An additional \$500 may be payable if the member is survived by dependent children.

Death After Retirement. When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid. If the member selected a survivor option at retirement, the eligible spouse receives a continuing, lifetime monthly benefit. If benefits are payable under the supplemental contributions provision, the eligible spouse or dependent children will receive a spouse's pension or survivor's allowance.

Supplemental Contributions Provision. A survivor's allowance or spouse's pension is payable when a member dies while (a) in active service or disabled after making supplemental contributions for at least one year, or (b) retired or deferred vested after making supplemental contributions for at least five years.

If a member has dependent children, a survivor's allowance equal to 35% of the member's base salary at the time of death or disability will be paid the spouse. An additional 10% is paid for each dependent child up to a maximum of 40%. The survivor's allowance ceases and a spouse's pension becomes payable when there is no longer an eligible dependent child.

A spouse's pension will be paid to the spouse if there are no dependent children. The

pension equals 50% of the retirement benefit that the member was receiving or would have received if retired at the time of death. The pension ceases when the spouse dies.

## (12) Post Retirement Pension Adjustment

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on TRS disability; or
- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least eight years.

## (13) Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive the Alaska cost of living allowance (COLA), which is equal to 10% of their base benefits. The following benefit recipients are eligible:

- (a) members who were first hired under the TRS before July 1, 1990, and their survivors;
- (b) members who were first hired under the TRS after June 30, 1990, and their survivors if they are at least age 65; and
- (c) all disabled members.